

## **1MDB in default after failure to make US\$50m payment**

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State-owned 1MDB has been declared in default after it failed to pay a US\$50.3 million debt payment on billions of dollars in bonds guaranteed by an Abu Dhabi state-owned sovereign wealth fund International Petroleum Investment Corporation (IPIC).

This is confirmed by 1MDB in a press statement today which blamed IPIC for its refusal to assume its “obligation to pay the interest and ultimately the principal for, among others, the US\$1.75 billion fixed rate 5.75% notes due 2022, issued by 1MDB Energy (Langat) Limited”.

“Accordingly, due to a dispute between the parties, neither 1MDB nor its subsidiary, 1MDB Energy (Langat) Limited, has made payment either, and are now in default per the terms of the Langat Notes,” said 1MDB.

*Singapore Straits Times* said that the declaration of default “immediately exposes Prime Minister Najib Abdul Razak's government to more than US\$6.481 billion in debt” owed to Gulf emirate Abu Dhabi.

“The exposure, which amounts to roughly four per cent of the Malaysian government's outstanding debt, includes the US\$3.5 billion bond, US\$1.15 billion in cash advances and another US\$481 million in a disputed payment the Abu Dhabi entity says it is owed, according to Malaysian government officials,” reported the Singapore daily.

Malaysian government officials close to the situation told *Singapore Straits Times* that the dispute surrounding the US\$3.5 billion that IPIC helped 1MDB raise in May 2012 is likely to go into private arbitration.

The IPIC and 1MDB disagreement stemmed from payments amounting to US\$3.54 billion that 1MDB said it made to units of IPIC under obligation of a May 2012 bond agreement,

but the Abu Dhabi fund however declared that it never received those monies, leading to it deferring the US\$50.3 million in interest due it had undertook to pay.

IPIC had declared that it will take over obligations on two bond issues from 1MDB including the Langat Notes in exchange for transfers of assets from 1MDB based on a June 4 agreement, but it had deferred its undertaking claiming that 1MDB failed to live up to its ends of the bargain by not transferring the monies and assets to IPIC as agreed.

### **No links to Abu Dhabi fund**

Investigations by the Public Accounts Committee (PAC) have shown that the monies were transferred instead to doppelganger companies set up to look like or rather named like an IPIC subsidiary, but with no links to the Abu Dhabi fund. The PAC blamed 1MDB management for the [discrepancy](#).

The deadline for the interests on the Langat Notes was April 18 but a default would only be declared if 1MDB did not settle the outstanding amount within a grace period of five working days which lapsed yesterday.

"Typically, when the deadline for an instalment interest payment is missed and a default declared on the bond issue, the trustee of the bond - which in this case is a unit of The Bank of New York Mellon - will call on IPIC as the guarantor to settle the installment payment and ultimately monies due to bond holders under the bond agreement.

"IPIC will then demand payment for whatever it is owed from 1MDB and if 1MDB refuses to pay, the Abu Dhabi sovereign wealth fund will call on the guarantees of the Malaysian government," read the *Singapore Straits Times* article.

While 1MDB reiterated that it will meet all its other existing financial obligations and has ample liquidity to do so, it is withholding the US\$50.3 million interest payment following claims by IPIC that certain payments and other obligations were still owed it.

“1MDB has been surprised by IPIC’s comments and unequivocally asserts that it has attempted to meet all its obligations to IPIC, whereas IPIC has publicly denied receipt or knowledge of various financial transactions and/or guarantees entered into between the parties.

“Accordingly, whilst 1MDB has the funds to have made the interest payment, it is 1MDB’s position, as a matter of principle, that it was IPIC’s obligation to do so. Until IPIC accepts that all obligations have been met, 1MDB is obliged to withhold payments and will seek legal recourse and resolution.”

1MDB also admitted that cross defaults have been triggered on the 1MDB RM5 billion Sukuk due 2039 (1MDB Sukuk) and the RM2.4 billion Bandar Malaysia Sdn Bhd Sukuk due between 2021 and 2024 (BMSB Sukuk) because of the Langat Notes default.

And while there are no cross default as yet on an RM800 million loan from the Social Security Organisation (Socso Loan), there is a possibility that ongoing events may trigger the “material adverse effect” clause in the loan agreement.

The "material adverse effect" clause refers to a safety clause put into venture financing deals which allows for the funder to stop its financing to the borrower if and when certain conditions, like failure to pay outstanding payments, occur.

Both the 1MDB Sukuk and the Socso Loan are guaranteed by the government and ultimately taxpayers.

1MDB claimed there is no cross default on its other remaining debts and that it is working to resolve its conflict with IPIC as well as engage with bond holders in the 1MDB Sukuk, the BMSB Sukuk as well as assure Socso that default is specific to its dispute with IPIC and is not due to the inability to make payment when due.

The IPIC deal was one of the three main pillars of the 1MDB rationalisation plan spearheaded by Arul Kanda which claimed that 1MDB has paid off all other short term and

bank debts and now retains a cash surplus of approximately RM2.3 billion and ready assets for disposal to see to its infrastructure expense and other debt service requirements.

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