

## **A new RM17.8 bil twist in 1MDB 'guarantee'**

**KINIBIZ ONLINE**

**June 29, 2015**

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**MP Tony Pua and 1Malaysia Development Bhd (1MDB) are in dispute over whether there's a government guarantee or not over US\$4.71 bil (RM17.8 bil) IPIC loans to the latter. But taking off the semantics and just maintaining the meaning shows Pua is clearly right.**

Latest developments at self-styled strategic development company 1MDB indicates yet again that it is not fully forthcoming on the problems that are affecting it, in this case a loan and guarantee arrangement between 1MDB and Abu Dhabi's International Petroleum Investment Company (IPIC) and its subsidiary Aabar Investments PJS involving US\$4.5 billion (RM17 billion).

MP Tony Pua first highlighted this referring to a [London Stock Exchange \(LSE\) statement](#) by IPIC on changes to its debt settlement arrangements with IPIC.

Presumably, since IPIC is an international borrower whose debts are listed on the LSE, it had to make those disclosures to the exchange.

That IPIC statement clearly sets out obligations under the debt settlement agreement. Essentially, the terms covered were as follows:

- on 4 June 2015, IPIC provided US\$1 billion to 1MDB for it to immediately settle some liabilities. On the same day IPIC assumed obligations to pay (on an interim basis) all interest due under two IPIC guaranteed 1MDB financings amounting to US\$3.5 billion.
- by 30 June 2016, about a year from now, IPIC is to have received a transfer of assets representing the RM1 billion cash payment, the US\$3.5 billion debt and any debt forgiveness.
- Upon the completion of the transfer of assets, IPIC will directly assume liability for all payment obligations under the US\$3.5 billion debt and forgive certain financial obligations of the 1MDB Group to the IPIC Group.

- Finally, 1MDB and MOF (Ministry of Finance) have agreed to perform the obligations in the binding term sheet and to indemnify IPIC and Aabar for any non-performance, and vice versa. IPIC has met the US\$1 billion cash payment and will meet the interim interest payments under the US\$3.5 billion debt from existing liquidity available.

From the fourth condition, it emerged clearly that the MOF now also assumes liability together with 1MDB for transferring the necessary assets to IPIC.

Pua in his statement pointed out that the Second Finance Minister Ahmad Husni Hanadzlah, had said that “1MDB has entered into a binding agreement with IPIC and its subsidiary Aabar Investments (Aabar) whereby IPIC will make a “payment” of US\$1 billion (US\$3.75 billion), on June 4, 2015. This US\$1 billion payment will be used to repay a US\$975 million loan, in advance of its due date, to a syndicate of international bank lenders.

“What the minister failed to disclose however, is the fact that the binding agreement isn’t just between IPIC, Aabar and 1MDB. Instead, the Government of Malaysia is also an integral party to the agreement,” he said.

Including an interest payment of US\$210 million, which IPIC also assumes, Pua has arrived at a total figure of US\$4.71 billion (RM17.8 billion) involved.

Meantime 1MDB’s statement that neither the MOF or the Government of Malaysia have provided guarantees for the transactions looks hollow when we strip the argument about semantics out.

The term sheet clearly states that MOF and 1MDB are responsible for fulfilling the conditions of the deal, basically that the two must deposit assets equivalent to the amount that IPIC has spent in the exercise which is US\$4.71 billion or RM17.8 billion at current exchange rates.

Whether the indemnity applies both ways or not is immaterial – effectively 1MDB and/or MOF must give IPIC US\$4.71 billion (RM17.8 billion) in assets.

One other thing that emerges as a result of this transaction is that if 1MDB’s loan obligations reduce, it will be only because 1MDB and/or the government pays off the IPIC loan a year from now.

The upshot from Pua's media statement and the reference to the LSE disclosure is that it is clear that that 1MDB's effective debt is not immediately reducing but continues to be at the same level unless these are paid off by 1MDB and/or the government.

Also, because of the stated undertaking/ letter of support/ guarantee/and anything else you may want to call it, by no less than the MOF, the series of transactions in the deal basically results in the MOF assuming responsibility for all obligations.

Effectively, the guarantee that IPIC had previously provided for the US\$3.5 bil debts has now moved to the MOF.

Let's finally reproduce 1MDB's statement in response to Pua's earlier one with our responses below:

**1MDB:** "As such, it is irresponsible of YB Tony Pua to suggest that the recent binding term sheet between 1MDB and IPIC, a commercial transaction, has resulted in further guarantee obligations by the Government of Malaysia. It is public information that the Government has only issued a "letter of support", and this was for a different USD3.0 billion (approx. RM11.35 billion) bond issued by 1MDB. In total, the Government has only provided explicit guarantees for RM5.8 billion of 1MDB debt.

**Our response:** As outlined above, the guarantee for US\$3.5 billion has in effect passed from IPIC to 1MDB – it has resulted in further obligations to the government.

**1MDB:** "YB Tony Pua has deliberately misled the public by failing to mention the crucial "and vice versa" clause in relation to the "indemnity", i.e. the indemnity applies both ways – to IPIC as well as 1MDB – in relation to performance of obligations by the parties. Such a two-way indemnity is a standard clause in commercial transactions to ensure neither party is "out of pocket" for non-performance by the other. 1MDB confirms that it fully intends to perform its obligations under the binding term sheet."

**Our response:** It is 1MDB which has misled the public by failing to disclose that the MOF has an obligation to transfer assets totalling US\$4.71 billion. That means the MOF is effectively undertaking to fulfill the obligation, not just 1MDB. Why was such an important point not disclosed? Two-way indemnity is immaterial, what counts is what happens at the end of the transaction.

**1MDB:** “The binding term sheet executed with IPIC is a key component of the 1MDB rationalisation plan as announced by the Ministry of Finance on 29 May 2015. The success of this approach has been evidenced by the recent repayment of a RM3.6 billion loan by 1MDB. Commercial negotiations are ongoing between 1MDB and IPIC to reach a definitive agreement, which will ultimately result in a reduction of approximately RM16 billion of 1MDB debt. 1MDB fully intends to share further information once a final agreement is reached between the parties.”

**Our response:** Basically, 1MDB borrowed money (US\$1 billion) from IPIC to repay the RM3.6 billion loan with an effective guarantee from MOF. And it bought itself one year of time to repay that through assets. Why is that such a big deal? And what definitive agreement is 1MDB going to do to retire its debts with IPIC? Inject assets? Is that a big deal? I owe you so much of money and I return it through an equivalent amount of assets. And what is the rationalisation plan for 1MDB? Why have details not been disclosed?

On all accounts, Pua is right and 1MDB is wrong – it is 1MDB which is misleading the people, not Pua, who is doing what he is supposed to do as a representative of the public in this instance. Shame on you 1MDB!

GRRRRR!!!

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Source: <http://www.kinibiz.com/story/tigertalk/175582/a-new-rm17.8-bil-twist-in-1mdb-guarantee.html>