

Financial restructuring proposal:

Collaboration at the core
of renewal

As the Saudi market continues to evolve, effective financial planning and collaboration have become essential for preserving business value. The rise in financial restructuring cases in Saudi Arabia highlights the importance of understanding the financial restructuring proposal, a critical element in the Financial Restructuring Procedure (FRP).

An FRP, which provides the support of a claims moratorium, aims to restore a distressed company's financial health through a fair, structured debt restructuring plan developed through stakeholder negotiations and thorough financial analysis. It provides a framework to reorganize debts, ease financial burdens, and improve cash flows, allowing the company to continue its regular operations and avoid liquidation. By preserving business value and ensuring equitable creditor treatment, the FRP becomes legally binding once court-approved, offering legal certainty and preventing litigation. As opposed to liquidation, an FRP saves time and costs by fostering creditor cooperation, increasing the likelihood of success, and delivering greater returns.

Experience indicates that the quality of the financial restructuring proposal, which underpins the FRP, and its acceptance by key stakeholders including court, debtor, creditors, shareholders, trustee, and advisors, greatly influences the overall outcome.

Financial restructuring proposal: From initiation until submission

The financial restructuring proposal is typically prepared by the debtor's management and their advisors, with the trustee playing a pivotal role throughout the process. The trustee oversees and supervises the preparation to ensure that the proposal complies with Article 16 of the KSA Bankruptcy Law implementing regulations.

The trustee is also required to submit their views to the court on the fairness of the plan for the creditors, the debtor, and the overall procedure. Legal advisors provide essential guidance on regulatory and legal requirements, while financial advisors assist in developing the restructuring strategy and financial analysis. Together, these parties collaborate to develop a comprehensive plan to be submitted to the court.

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Assessing the debtor's financial position

A thorough assessment of the debtor's financial status forms the foundation of the restructuring plan, encompassing an in-depth analysis of historical performance and the assumptions behind forecast financial statements. It includes evaluating assets and liabilities by verifying asset existence, assessing market values where applicable, and mapping financial obligations alongside repayment schedules. The Bankruptcy Law facilitates relief by allowing the trustee to terminate unnecessary contracts to reduce financial burdens, thereby protecting the majority of creditor interests while minimizing harm to the other contracting party. Additionally, identifying the root causes of financial distress, such as operational inefficiencies, declining revenues, or excessive debt, is critical for assessing restructuring feasibility and shaping the recovery strategy.



Drafting the financial restructuring proposal

The Bankruptcy Law requires the inclusion of essential sections in the financial restructuring proposal to ensure legal compliance and active creditor engagement. The proposal must begin with an introduction that provides an overview of the debtor's financial situation and restructuring objectives. It should include an analysis of the debtor's assets, liabilities, and financial performance. The debt restructuring plan within the proposal must outline specific measures for managing debts, repayment schedules, and refinancing options. To facilitate a fair and orderly process, the debtor categorizes creditors based on the nature of their debts or rights, streamlining the voting procedure and ensuring equitable treatment amongst creditors. The proposal must also incorporate a clear voting mechanism requiring the debtor to share the financial restructuring proposal at least 21 days before the voting day to allow creditors to review and negotiate terms, thereby minimizing potential conflicts.

Additionally, the plan should present a phased implementation timeline with performance tracking metrics to manage cash flow effectively, maintain liquidity, and secure necessary funding. Projected financial and operational outcomes are included to demonstrate the expected impact of the restructuring, such as cost-cutting initiatives, workflow optimization, and exploration of new revenue streams. Furthermore, during the drafting of the proposal, creditors are classified into distinct groups based on the similarity of their debts and rights, ensuring consistent treatment within each creditor class. The plan also incorporates an Estimated Outcome Statement (EOS), illustrating potential returns to creditors in the event of the debtor's liquidation and providing a clear comparison of recoveries should the debtor proceed with liquidation rather than a formal FRP.

As per the Bankruptcy Law, creditors with high-value claims can form a creditor committee to express their concerns and opinions before any decisions are made, as their involvement can significantly impact the viability of the restructuring plan.



Voting and ratification

The voting process for the financial restructuring proposal takes place in separate rounds, with participation from creditors holding approved claims and shareholders. Creditor approval requires either all classes or at least one class whose approved votes total 50% or more of all voting creditor claims. Once the necessary voting thresholds are met, the trustee submits the plan to the court for ratification. The court reviews the proposal to ensure it meets fairness and procedural standards and gives creditors the right to object. Upon ratification, and once the objection period successfully ends, the restructuring plan becomes legally binding and is implemented under the trustee's supervision. After approval, the plan binds all creditors, including those who opposed or abstained, providing legal certainty and allowing the restructuring to proceed. If the proposal is rejected, the debtor may face other scenarios, including waiting for a year before filing again or going into liquidation, which typically results in lower recoveries.



Key challenges and insights for potential mitigation measures

A major challenge in an FRP is the ability to balance the often-conflicting interests of stakeholders, including secured and unsecured creditors, employees, and shareholders—each with distinct priorities such as collateral protection, claim recovery, ownership preservation, and job security.

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These divergent goals, combined with a lack of trust and cooperation fueled by financial distress, frequently lead to guarded communication, negotiation deadlocks, and prolonged, costly processes.

The complexity of the process is also attributable to the presence of multiple creditor classes, each with different restructuring terms, requiring careful coordination, clear explanations of the debtor's financial situation and repayment capacity, and transparent dialogue to build consensus and secure approval for voting. Managing creditor expectations throughout the process, along with early engagement, helps in preventing disputes. Creditors' positive attitude toward the terms of the financial restructuring proposal, along with their careful understanding of the debtor's current and future financial and operational situation, plays a key role in the success of the plan. On the other hand, creditors should also be mindful that unexplained or irrational refusal of the plan might result in a worse outcome, with very minimal recovery.

Another challenge in an FRP is the time factor, where creditors are awaiting a fast repayment and the protection period for the debtor (claims moratorium) is limited as per the Bankruptcy Law. Smooth collaboration between trustee, management, and advisors is key to achieving a quick turnout.

Notwithstanding this, keeping the court up-to-date with key matters is crucial, facilitating a smoother review of the financial restructuring plan before submission for ratification.

Furthermore, even after successful court ratification, risks may still persist, such as debtor's inability to follow the restructuring plan, potentially leading to negative outcomes. The Bankruptcy Law offers flexibility by allowing amendments to the financial restructuring proposal. Upon a formal request from the debtor or trustee, and following legal procedures, the court can approve modifications. This adaptability is vital for addressing changing circumstances or unforeseen issues, protecting all stakeholders' interests and increasing the chances of successful recovery and sustainable business continuity.

In conclusion, the rising prevalence of financial restructuring cases in Saudi Arabia stresses the importance of developing a well-crafted financial restructuring proposal. A collaborative approach among all relevant stakeholders remains essential to achieving equitable solutions and promoting sustainable financial health in the local economy.

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