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IMPLEMENTATION OF DEBT TO EQUITY SWAP AS A STEP FOR COMPANIES IN FACING THE THREAT OF BANKRUPTCY

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Abstract

This article examines the implementation of debt to equity swap as a strategic legal mechanism for companies facing the threat of bankruptcy within the Indonesian legal system. The study departs from the phenomenon of corporate over-leverage and the increasing use of Postponement of Debt Payment Obligations (PKPU) as a forum for debt restructuring, and focuses on how the conversion of debt into shares can operate as an alternative corporate rescue tool rather than a purely financial technique. Using a normative legal research method with a statute, case, and conceptual approach, the research analyzes the legal framework governing debt to equity swap, including bankruptcy law, company law, and capital market regulation, and is conceptually grounded in Lawrence M. Friedman's legal system theory, encompassing legal structure, substance, and culture. The discussion is supported by case studies of PT Garuda Indonesia, PT Darma Henwa Tbk, and PT Bakrie & Brothers Tbk to assess the practical application, procedural requirements, and consequences of debt to equity swap. The findings indicate that, under appropriate conditions, debt to equity swaps can mitigate bankruptcy risk, restore financial health, recalibrate the relationship between companies and creditors, and strengthen ongoing concerns while still requiring careful attention to shareholder protection and regulatory compliance.

Keywords : bankruptcy, debt to equity swap, PKPU

INTRODUCTION

In the global and national economy, companies often face financial challenges that can lead to insolvency. Internal and external funding are essential for a company's continued operation. The larger the company, the greater the funding required. Therefore, funding for companies, especially those in the growth phase for expansion, requires significant operational funds. Company operational funds can come from both internal and external sources (Febrianti and Astrini Aning Widoretno 2024) . Generally, companies require more external operational funding, especially those in the growth (expansion) phase . External funding is a major responsibility for a company. External funding can be obtained through bank loans, bond issuance, stock issuance, or financing from external investors ("Internal vs. External Financing" 2020) . External funding must be considered because it originates from debt or equity issuance. This can lead to economic problems for a company if it is unable to meet its debt obligations.

Essentially, a company's debt is its unfulfilled financial obligation to another party (S. Munawir 2017) . Every debt a company incurs is accompanied by a repayment deadline. This deadline often becomes a burden for companies, especially when the company is in an unstable financial condition. Companies often face difficulties in repaying their debts, leading to debt woes. Bankruptcy is a problem that is often difficult for companies to avoid, arising from unpayable debts. Suspension of Debt Payment Obligations (PKPU) can be a legal instrument that a company can take if it cannot pay off its debts with the intention of submitting a peace plan which includes an offer to pay part or all of the debt to creditors. (Law Number 37 of 2004 Concerning Bankruptcy and Suspension of Debt Payment Obligations , nd) . Although PKPU cannot guarantee that the debtor can continue his business because the time is relatively short and depends on the creditor's decision, PKPU can be done to request protection from creditor demands during the debt restructuring process (Nabil Ratu Utami, Tri Nadia Samuel Paranna 2024) . Restructuring can be interpreted as a fundamental change in the direction of managerial policies and strategies that include adjustments to the composition of assets, liabilities, and company capital (Djohanputro 2014) . This aims to reorganize the internal and operational financial balance, so that the company can achieve optimal performance, increase the company's value in the eyes of investors, and strengthen long-term competitiveness in a competitive and constantly changing economic environment. One debt restructuring method that is currently receiving considerable attention is the debt-to-equity swap, which converts debt into shares in a company that is no longer able to repay its debts (Rahayu 2022) . Through this mechanism, creditors convert their receivables into equity ownership, allowing the company to reduce its debt burden and strengthen its capital structure. Several companies in Indonesia have implemented debt-to-equity swap restructuring as a means of saving themselves from bankruptcy, including PT. Garuda Indonesia, PT Darma Henwa Tbk (DEWA), and PT Bakrie & Brothers Tbk (BNBR). In several cases involving companies facing bankruptcy, debt-to-equity swaps have proven to be a highly profitable strategy for corporate rescue. This is evident in the three examples of companies mentioned above that successfully emerged from the threat of bankruptcy by implementing the debt-to-equity swap method . Converting debt into shares can improve a company's economic condition, enabling it to survive the debt crisis.

In today's increasingly dynamic and competitive business world, companies are required not only to survive but also to thrive through sustainable financing strategies. When financing structures are no longer able to meet operational and expansion needs, financial risks increase and can lead to an inability to repay obligations. Therefore, selecting the right financing method is crucial for maintaining business continuity. A crucial aspect of corporate financial management is how to efficiently manage and manage debt, especially when the burden of obligations begins to disrupt the stability of the company's performance. Restructuring is an unavoidable strategic step for companies facing a liquidity crisis. A PKPU (Personal Loan Debt Restructuring) is an initial solution that can provide debtors with breathing space, particularly in preparing repayment plans for creditors. PKPU provides debtors with the opportunity to restructure their financial obligations, enabling them to restructure their business to maintain business continuity while simultaneously resolving their debt obligations (Haichal 2022) . During the ongoing PKPU process, debtors also receive legal protection from filing bankruptcy petitions by any party (Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations , n.d.) . In many cases, PKPU paves the way for more planned restructuring, including through debt-to-equity conversion mechanisms. The goal of this process is not only to postpone short-term obligations, but also to create a new, more sustainable financial order in the long term.

A debt-to-equity swap, as a restructuring instrument, demonstrates that debt resolution isn't always destructive or thwarting business opportunities. Instead, this approach allows companies to significantly reduce the pressure of financial obligations and simultaneously improve their equity-to-debt ratio. Creditors, who previously held claims on receivables, now become shareholders, aligning their interests with the company's survival. This creates a symbiotic relationship between the company and its former creditors, ensuring operational stability. This approach has proven effective in several large Indonesian corporations. PT Garuda Indonesia, for example, successfully mitigated the threat of bankruptcy through this strategy by involving creditors in a new ownership scheme. Garuda Indonesia converted Rp4.2 trillion in debt into shares for its creditors at a price as low as Rp182 per share (Rahayu 2022) . A similar move was also made by PT Darma Henwa Tbk (DEWA), which converted Rp1.11 trillion in debt to two of its creditors, PT Madhani Talatah Nusantara (MTN) and PT Andhesti Tungkas Pratama (ATP) (Hannel 2025) , into new shares at a price of Rp65 per share. In addition, PT Bakrie & Brothers converted Rp855 billion in debt into shares to the Company, namely Eurofa Capital Investment Inc (Eurofa) and Silvery Moon Investment Ltd (SMIL) (Respati 2022) . All three were able to survive and improve their financial structure thanks to the debt-to-equity conversion. This fact shows that debt-to-equity swaps are not only relevant as a technical financial instrument, but also as a rescue strategy that balances the business, legal, and public trust dimensions in corporate sustainability.

In the context of the national economy, the successful implementation of debt restructuring through debt-to-equity swaps also provides a positive signal for the investment climate. This demonstrates that Indonesia has adaptive legal and policy instruments to address complex corporate issues. Therefore, this practice not only saves business entities from financial ruin but also strengthens the overall economic system by protecting jobs, business continuity, and capital market stability. This study uses the legal system theory approach proposed by Lawrence M. Friedman as a conceptual basis in analyzing the implementation of debt to equity swaps as a strategic step for companies in facing the threat of bankruptcy. According to Friedman, the legal system consists of three main elements, namely the legal structure , legal substance , and legal culture (Friedman 1975) . In the context of this study, the legal structure reflects the role of institutions such as commercial courts, the Financial Services Authority (OJK), and other actors involved in the debt restructuring process through legitimate legal mechanisms. Meanwhile, legal substance includes laws and regulations that form the basis for implementing debt-to-equity conversions, such as Law Number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment

Obligations (Bankruptcy Law and PKPU), as well as capital market regulations issued by the OJK. The legal culture dimension plays an important role in assessing the responses and attitudes of business actors, creditors, investors, and law enforcement officials towards the implementation of debt to equity swaps . This openness to debt restructuring alternatives reflects a level of confidence in the effectiveness of the legal system in providing solutions to corporate financial crises. Therefore, using Friedman's theory, this study seeks to understand how these three elements of the legal system interact to support or hinder the implementation of debt-to-equity swaps as a corporate rescue instrument. Based on the background of the problem, this study will discuss how the implementation of debt to equity swap can be a wise step for companies to avoid bankruptcy and the impact of the implementation, both legal impacts, financial, company relations with creditors and investors, as well as strategic impacts on business continuity (going concern) . Therefore, the research from the final assignment that the researcher did is entitled "The Implementation of Debt to Equity Swap as a Step for Companies in Facing the Threat of Bankruptcy."

LITERATURE REVIEW

To strengthen the foundation for this research, the researcher first conducted an in-depth review of several scientific works or previous studies that were closely relevant to the topic and issues being studied. This step was intended not only to gain a comprehensive understanding of the research context but also to avoid plagiarism, either directly or indirectly, of the ideas and findings of other researchers. By reviewing previous research, the researcher was able to clearly identify similarities in approach, method, and scope, as well as to understand in detail the differences between the current research and previous studies. This is crucial for demonstrating the authenticity of the research's scientific contribution and for emphasizing the research's position and urgency. Research related to debt-to-equity swaps includes:

Analysis of Debt Restructuring Implementation Using the Debt to Equity Swap Method at PT Palmars. This research was written by Dela Febrianti and Astrini Aning Widoretno from the Faculty of Law, East Java "Veteran" National Development University and published in the Nusantara Scientific Journal (JINU) Volume 1 Number 4 of 2024. This article discusses the implementation of debt restructuring carried out by PT Palmars to its parent company, PT PAL Indonesia, using the debt to equity swap method . This method was implemented as an effort to overcome problematic financial conditions due to high debt burdens, contract failures, and liquidity pressures. The study shows that the debt restructuring procedure implemented by PT Palmars is in accordance with the provisions of OJK Regulation Number 48 of 2020. This process includes the preparation of a restructuring proposal, analysis of legal and financial aspects, shareholder approval, and post-restructuring monitoring. This restructuring has a positive impact on the company's financial ratios, namely: the liquidity ratio increases because the short-term debt burden is reduced; the company's ability to meet its long-term obligations improves due to the transfer of debt to equity; and profitability ratios improved due to the elimination of interest costs. Overall, the debt-to-equity swap restructuring improved PT Palmars' financial condition and enabled the company to resume strategic business activities, including participating in government tenders and seeking external funding.

The Practice of Converting Debt into Shares as an Implementation of the Going Concern Principle in Bankruptcy and PKPU. This research was written by Jonathan Fide Mulya, Lastuti Abubakar, and Anita Afriana from the Faculty of Law, Padjadjaran University and published in the Jurnal Ilmu Hukum, Humaniora dan Politik (JIHHP) Dinasti Review Volume 4 Number 4 of 2024. This research discusses the implementation of the debt-to-equity swap mechanism in the PKPU process as a step to save the debtor's business to avoid bankruptcy. There are three companies that are the case studies in this research, namely PT Argo Pantes, PT Berlian Laju Tanker, and PT Bakrie Telecom. The case studies show that converting debt into shares can be a solution to maintain business continuity (going concern), by offering shares in exchange for debt payments to creditors in the PKPU peace plan. Implementation of Debt to Equity Swap as a Corporate Debt Restructuring Effort . This research was written by Ilham Akbar from the Faculty of Law, University of Indonesia, and published in the Legal Brief Journal, Volume 11, Number 5, 2022. This research comprehensively examines how the debt-to-equity swap policy, or the conversion of debt into shares, can be implemented as a form of corporate debt restructuring in Indonesia. It also examines the legal implications, including protection for shareholders who are diluted due to the issuance of new shares under the scheme. This research emphasizes that the implementation of a debt-to-equity swap can not only save a company from bankruptcy through capital restructuring but must also consider the balance of legal interests between debtors, creditors, and existing shareholders. This research also discusses legal protection mechanisms for diluted minority shareholders, including through the granting of preemptive rights (rights issue) and the right to reject decisions of the General Meeting of Shareholders (GMS) as stipulated in the provisions of the Limited

Liability Company Law. Effect of Debt Restructuring Through Debt to Equity Swap Policy Towards Financial Performance of PT. XYZ. This research was written by Gugum Permana and Fajri Adrianto and published in the Journal of Economic Education Study Program STKIP PGRI West Sumatra Volume 8 Number 2 of 2020. This article explains the effect of debt to equity swap on a company's financial performance, with a case study on PT XYZ which operates in the tea plantation sector in West Sumatra. This study found that the debt to equity swap policy has a significant impact on improving several financial performance indicators, especially in the aspects of profitability and efficiency of the company's assets. However, the policy does not show a significant effect on the company's liquidity aspects, such as the current ratio and quick ratio.

In its process, this paper is inseparable from previous studies published in scientific journals. There are several aspects of similarities found in previous works. However, there are several differences in the results of the research development and analysis that will be written in this study. The aspects that are similar to the studies in this paper include a description of the discussion of bankruptcy in a company, an explanation of PKPU and debt restructuring as efforts in bankruptcy, and a description of debt to equity swaps as one method of debt restructuring in a company threatened with bankruptcy. The difference in this paper, among others, the author describes the results of the analysis of debt to equity swaps as a good alternative legal effort to be implemented in facing the threat of bankruptcy of a company by looking at three case studies that occurred in the past five years, namely PT. Garuda Indonesia, PT Darma Henwa Tbk (DEWA), and PT Bakrie & Brothers Tbk (BNBR). In addition, the author will also describe the impact that will be experienced by a company when implementing a debt to equity swap in an effort to overcome the threat of bankruptcy. The impacts described are the results of an analysis of the legal impacts that will occur on a company, the financial impact on the company, the impact on the company's relationship with creditors and investors, and the strategic impact on business continuity (going concern) of implementing a debt to equity swap .

METHOD

This study uses normative legal research, a research approach undertaken to discover truth based on scientific logic from a normative perspective (Nur Indah Putri Ramadhani and Rianda Dirkareshza 2021) . This approach places greater emphasis on the study of applicable positive legal norms, whether in the form of statutory regulations, doctrines, or legal principles relevant to the legal issues discussed. Normative legal research was chosen because the issues examined in this article are closely related to positive legal regulations regarding corporate debt restructuring through the debt-to-equity swap mechanism , as well as legal protection for shareholders affected by this policy. This normative legal research also examines legal principles and legal doctrines developing in academic circles and legal practice as part of secondary legal materials that play a role in interpreting and providing direction for the implementation of norms in practice (Marzuki 2017) .

In this study, the author uses a research approach, namely the statutory approach, the case approach, and the conceptual approach. The first approach is the Statute Approach , which is an approach used to review and analyze all regulations and arrangements related to the legal issue being studied (I 2017) . The researcher reviewed the Bankruptcy and PKPU Law, Law Number 40 of 2007 concerning Limited Liability Companies (PT Law), and Financial Services Authority Regulation Number 48 of 2020 (POJK 48). The second approach is the case approach , which is an approach carried out by reviewing cases related to the legal issue at hand. In this case, the cases studied by the author are bankruptcy cases, including those that occurred at PT. Garuda Indonesia, PT Darma Henwa Tbk (DEWA), and PT Bakrie & Brothers Tbk. These concepts are reviewed based on the views of legal experts (doctrine) , and are explained in the context of the Indonesian positive legal system.

Research data is a unit of information needed to answer the research problem. Therefore, the data that the researcher uses to answer all the problems in this study are as follows: Primary Legal Materials. Primary legal materials are legal materials that are authoritative, meaning they have authority (Ibrahim 2021) . In this study, the primary legal materials that the researcher uses include the Bankruptcy and PKPU Law, the PT Law, and the POJK; Secondary Legal Materials. Secondary legal materials are legal materials that support the primary legal materials (Laila 2022) . In this writing, several secondary legal materials used by the author consist of (a) textbooks that discuss one or several legal issues, including legal theses, dissertations, and dissertations on bankruptcy, (b) legal dictionaries, and (c) legal journals related to bankruptcy and debt restructuring, including debt to equity swaps , which are one form of debt restructuring. The publication provides guidance or explanations regarding primary or secondary legal materials from universities, encyclopedias, journals, newspapers, and so on; Tertiary Legal Materials. Tertiary legal materials (tertiary resources) , namely legal materials that provide guidance or explanations of primary and secondary legal materials (Iaia 2022) . In this study, the tertiary legal materials used are legal encyclopedias. The use of these tertiary legal sources is intended to strengthen the theoretical foundation and bridge the understanding between field practice and written legal norms. This study used library research as the data collection method . The data were sourced from prevailing laws and regulations in Indonesia (Muhammad 2022) . This study analyzed primary legal materials such as the Bankruptcy and PKPU Law, the PT Law, and POJK 48. Furthermore, a search and analysis of references in the form of legal books, scientific journal articles, and the opinions of legal scholars were also used to enrich the legal analysis and sharpen the legal construction developed in this article.

The data analysis technique applied in this study uses a descriptive analysis approach, namely a method that aims to provide a systematic, factual, and accurate description of the object of study based on data and legal materials that have been obtained and processed previously (Nurbani. 2013) . In this context, the analysis is carried out not merely by re-presenting available legal information, but through a process of in-depth legal interpretation or interpretation of relevant norms, whether sourced from laws and regulations, expert doctrines, or court decisions. This interpretation includes efforts to understand the legal meaning of existing legal provisions, examine the scope of their application, and identify their implications for the legal issues studied. In other words, the descriptive analysis in this study is not only textual, but also contains elements of normative analysis oriented towards discovering the meaning of the law contextually and logically in accordance with the problems studied.

RESULTS AND DISCUSSION

Debt to Equity Swap as a Wise Step for Companies in Facing the Threat of Bankruptcy

Companies facing the threat of bankruptcy are generally characterized by a debt structure that is unbalanced with their cash flow generation capacity, particularly when financial burdens increase due to over-leverage and a sustained decline in solvency. This situation is reflected in many corporate cases where interest expenses exceed operational revenue generation capacity, significantly increasing the risk of default , as illustrated by a study by Karavar and Yaman, which shows that liquidity pressure is a key indicator of bankruptcy risk when financial ratios experience a simultaneous decline in profitability and asset performance (Karavar & Yaman, 2024). The decline in revenue, coupled with a cash flow deficit, exacerbates a company's inability to repay its obligations, especially when creditors choose not to extend loan facilities, making the debtor's position even more vulnerable to potential bankruptcy proceedings. Debtors still have room to maneuver through the PKPU mechanism, which allows them to develop a peace plan and restructuring strategy, as emphasized in Nainggolan's research, which explains that PKPU acts as an instrument to withstand execution pressure and provide more balanced negotiation space between debtors and creditors in the context of business recovery (Nainggolan, 2022).

The legal basis for implementing a debt-to-equity swap lies within the realm of bankruptcy law and corporate law, as this mechanism can be included in a PKPU (Commission for Debt Settlement) restructuring plan, allowing debtors to propose converting debt into shares to reach a company rescue agreement. This provision aligns with Law Number 37 of 2004, which provides debtors with the flexibility to incorporate various forms of restructuring into the restructuring plan, including debt-to-share conversion, or a debt-to-equity swap, which is a legitimate form of capital restructuring provided it obtains creditor approval and meets corporate requirements (Akbar, 2022). The implementation of a debt-to-equity swap in a limited liability company is subject to the provisions of Law Number 40 of 2007, which regulates the process of increasing capital and issuing new shares, which can only be carried out through a GMS resolution in accordance with applicable legal procedures. Public companies are required to comply with OJK regulations regarding the issuance of securities and information disclosure to ensure investor protection, which is an integral part of the legitimacy of the debt-to-equity swap scheme (Febrianti & Widoretno, 2024). The legal relationship between debtors and creditors undergoes a fundamental shift after conversion, because creditors are no longer in the position of debt collectors but become shareholders who obtain voting rights and long-term interests in the company.

The debt-to-equity swap implementation procedure begins with the debtor's preparation of a conversion scheme, which includes determining the value of the debt to be converted, setting the share price, and identifying the creditor classes to be involved. The scheme is submitted to the PKPU forum as part of a reconciliation plan, which is then decided through a voting mechanism by creditors with voting rights. The debt-to-equity swap implementation structure requires the legitimacy of a GMS to approve the issuance of new shares, thus ensuring compliance with corporate governance aspects in accordance with applicable company law. This implementation process includes a series of administrative actions such as amending the articles of association, recording changes in capital, and reporting to authorized agencies to ensure the legal validity of the conversion (Nadilah & Yulita, 2025). Technical implementation at the public company level requires reporting to the Financial Services

Authority (OJK) and the Indonesia Stock Exchange, including disclosure of information regarding changes in shareholder composition and the impact on company value. Debt restructuring methods available to companies are diverse, including rescheduling , refinancing , haircuts , and asset sales. However, the characteristics of a debt-to-equity swap are fundamentally different because this mechanism requires no cash outflow from the company and directly reduces debt obligations on the company's balance sheet. Market-oriented debt-to-equity swaps can stabilize a company's financial performance when the capital structure is strengthened by increasing equity without additional liquidity pressure, thus positively impacting long-term financial ratios (Jiang, 2024). The study shows that converting debt to equity has a differentiating effect compared to simply rescheduling or reducing debt, primarily because creditors obtain ownership-based incentives that can foster support for the company's operational sustainability. The conversion mechanism also has a direct impact on simplifying the company's financial burden by eliminating cash-consuming obligations (Putri, 2023).

The benefits of implementing a debt-to-equity swap for debtors include reduced interest expenses, improved capital structure, and increased going-concern opportunities , allowing companies to refocus resources on operational recovery. Debt-to-equity swaps have a significant impact on reducing the risk of non-performing loans and increasing operational effectiveness (Prasetiyono, 2024). Creditors who receive shares gain potential long-term benefits through increased company value if the recovery strategy proceeds as projected. Debt conversion significantly increases profitability ratios and improves capital structure, providing economic incentives for creditors to become shareholders (Febrianti & Widoretno, 2024). The change in creditor status to shareholders also grants them voting rights, allowing them greater influence over the direction of company policy.

Risks can also arise from implementing a debt-to-equity swap, given the potential for a change in corporate control, which could create tensions between existing shareholders and creditors who become new owners. Bankruptcy risk depends not only on the debt structure but also on the financial flexibility and corporate strategy implemented by management, so a change in control can impact the company's strategic direction (Diab et al., 2025). Creditors face the risk of loss of certainty regarding receivable payments and uncertainty about the value of shares received due to market fluctuations and the possibility that the company's performance may not improve as expected. The impact of a debt-to-equity swap is highly dependent on the quality of management and the company's ability to maintain performance after restructuring, so not all creditors have a strong preference for the conversion scheme (Jiang, 2024).

The debtor's negotiating position in the restructuring process is strengthened through a debt-to-equity swap because the company not only offers a deferral or reduction of obligations but also provides economic value in the form of ownership that can generate profits for creditors. A debt-to-equity swap is often viewed as a win-win solution that facilitates a shift in creditor interests from a short-term to a long-term orientation in line with the company's business sustainability (Akbar, 2022). The success of companies like Garuda Indonesia in obtaining creditor approval through the DES scheme demonstrates that debtors can increase their bargaining power when they are able to convince creditors that the company's post-restructuring value is higher than the liquidation proceeds. This suggests that ownership-based solutions tend to be more acceptable to creditors than traditional payment deferral requests when business prospects are still promising (Prasetiyono, 2024).

Characteristics of companies suitable for implementing DES include companies with strong business prospects, capital intensiveness, and strategic economic value, especially those with low liquidation value but high operational value, such as those in the transportation and energy industries. Companies with strategic roles tend to receive creditor support in conversion schemes because business continuity is more profitable than liquidation (Febrianti & Widoretno, 2024). The implementation of debt-to-equity swaps is highly dependent on creditor trust in management; management's credibility in developing recovery plans is a key factor in creditor acceptance (Nadilah & Yulita, 2025). The chances of success of a debt-to-equity swap are therefore higher in companies that can demonstrate operational recovery capacity, strong governance, and a compelling business strategy, so that creditors are willing to switch from claimant holders to shareholders.

The Impact on Companies Threatened with Bankruptcy of the Implementation of Debt to Equity Swaps

The transformation of creditors into shareholders through the implementation of a debt-to-equity swap results in significant legal changes, as the legal relationship, previously based on debt-receivable obligations, shifts to an ownership relationship subject to corporate law. This shift eliminates creditors' claims and transforms them into subjects entitled to votes, dividends, and influence in the company's strategic decision-making, thus undergoing a complete reconstruction of the legal relationship structure. Debt conversion repositions the rights and obligations of the parties within the corporate context (Akbar, 2022). This conversion mechanism also requires compliance with legal procedures such as GMS approval, amendments to the articles of association, and reporting to supervisory authorities, illustrating that the legal impact of a debt-to-equity swap is not only substantive but also multifaceted (Putri, 2023). The company's adherence to these procedures demonstrates that restructuring within the PKPU framework must be within formal legal framework to ensure creditor protection and maintain the integrity of the restructuring process (Nainggolan, 2022). The changes in capital structure resulting from the implementation of a debt-to-equity swap have a significant financial impact on companies because the elimination of debt obligations results in reduced interest expenses and ratios, thus strengthening the company's capacity to recover its financial performance (Jiang, 2024). The improved financial structure of the debt-to-equity swap supports profitability recovery and reduces the risk of non-performing loans, thus directly contributing to financial rehabilitation (Prasetiyono, 2024). Companies that convert debt into equity experience positive effects, such as increased liquidity, solvency, and the ability to re-access funding after strengthening their capital structure (Febrianti & Widoretno, 2024).

Corporate relationships with creditors and investors undergo a fundamental reconstruction as creditors, transitioning into shareholders, shift the orientation of their relationships from claims-based payments to long-term interests in the company's sustainability. This shift creates stronger synchronization between the company and its stakeholders, shifting the focus from repayment to increasing corporate value, thus creating healthier economic incentives for both parties (Nadilah & Yulita, 2025). This shift in relationships also has implications for public investor confidence, as a company's ability to restructure with legal legitimacy signals effective risk management and stable governance (Karavar & Yaman, 2024). This transformation in internal relationships has strategic implications for a company's ability to secure capital and investment support in the future.

The strategic impact on a company's business continuity is a crucial dimension of implementing a debt-to-equity swap because the strengthening of the capital structure, reduction of financial risk, and shift in creditor interests create a more solid foundation for the company to maintain a going concern . Reducing debt pressure opens up space for companies to allocate resources to productive activities and more efficient recovery strategies, thereby mitigating bankruptcy risk, as financial flexibility plays a key role in reducing bankruptcy risk in emerging markets (Diab et al., 2025). A company's capacity to survive increases when the capital structure is rebalanced and financial burdens are reduced, simultaneously creating a more conducive corporate environment for innovation and expansion. Debt-to-equity swaps have a direct impact on improving a company's operational performance in the medium term through improved capital discipline and sustainable cash flow recovery (Prasetiyono, 2024).

The positive impact of implementing a debt to equity swap is seen in several companies in Indonesia, such as PT Garuda Indonesia, which converted Rp4.2 trillion in debt into shares to its creditors with a minimum of Rp182 per share. The reduction in interest expenses due to the implementation of the debt to equity swap , the Company's capital structure became healthier, so that PT Garuda had the opportunity to strengthen its competitiveness and financial stability amidst heavy pressure from the aviation industry (Gugum Permana and Fajri Adrianto 2020) . The implementation of this method was also carried out by PT Darma Henwa Tbk (DEWA), which converted Rp1.11 trillion in debt (Hannel 2025) . This step improved the financial structure and increased the company's ability to fulfill its long-term obligations due to the decrease in the debt ratio due to the debt to equity swap (Angelina et al. 2024) . In addition, PT Bakrie & Brothers also converted its debt of Rp855 billion, which resulted in a decrease in total liabilities and an increase in equity, resulting in healthier cash flow (Bakrie & Brothers 2024) . The three companies managed to resolve their debt problems so they could operate again.

CONCLUSION

Every company faces potential problems that threaten bankruptcy. A debt-to-equity swap is a strategy that offers new opportunities for companies whose debt structures are no longer commensurate with their cash flow generation capabilities and are on the verge of bankruptcy. Through this mechanism, debt, previously a burden, is converted into equity, freeing the company from interest pressure, gaining greater financial flexibility, and allowing it to refocus on operational recovery. This scheme also has a strong legal basis because it can be included in a debt restructuring plan for debt-to-equity debt restructuring (PKPU) and is subject to company law provisions requiring GMS approval and information disclosure. Therefore, the debt-to-equity conversion remains a legal procedure and protects all parties. The implementation of this mechanism changes the relationship between debtors and creditors, creating a company and shareholders with long-term interests, making the restructuring process more aligned with efforts to maintain the company's sustainability. While there are risks, such as potential changes in corporate control or uncertainty about share value, the financial benefits of implementing this scheme are more positive, including eliminating the debt burden, strengthening the capital structure, and increasing the company's ability to meet long-term obligations. The success of this mechanism has been evident in several large Indonesian companies, such as Garuda Indonesia, Darma Henwa, and Bakrie & Brothers. All three demonstrate that when implemented with careful planning, creditor support, and sound governance, a debt-to-equity swap can be a lifeline that not only reduces the risk of bankruptcy but also strengthens the company's competitive position, enabling it to grow and survive.

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