THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

PREFACE

The *Principles for Stable Capital Flows and Fair Debt Restructuring* (the *Principles*) are voluntary guidelines which were formulated in 2004 by a working group composed of representatives of emerging market sovereign debtors and their official and private creditors with the IIF acting as the group's secretariat. The G20 first expressed support for the Principles in 2004.[1]

For many years, sovereign debtors and their private sector creditors have sought to put in place policies and procedures likely to promote and maintain sustained market access. The COVID-19 pandemic and the need to finance climate change mitigation and adaptation and broader sustainable development goals continue to demonstrate the importance of stable capital flows and market access for sovereigns.

Most sovereign debtors have recognized the importance of implementing sound economic and financial policies (including monetary, exchange rate and debt management policies), as well as developing domestic public support for those policies. Equally important are policies that preserve the rule of law and, in particular, maintain the sanctity of contracts, as well as other measures needed to advance an open investment environment. In maintaining sound policies, sovereign debtors have been guided by internationally accepted standards to strengthen financial stability and to enhance transparency by providing timely economic and financial data.

Experience has shown that the choice of debt instruments by sovereign debtors can have a significant effect on the stability of capital flows and, as a consequence, materially influence key macroeconomic factors for that country. In this context, it is promising to see the increasing demand from private investors seeking impactful outcomes linked with environmental, social and governance (ESG) priorities or development.

For their part, most creditors make investment and lending decisions on their own merit, accept full responsibility for these decisions, and do not expect official sector bailouts. As part of this process, creditors have sought to implement good practices in risk management, including thorough analysis of a borrowing country's implementation of sound economic and financial policies, as well as its adherence to prevailing best practice standards.

From the early 2000s, in a significant step toward strengthening the resilience of the system, many sovereign debtors included collective action clauses (CACs) in the contractual terms of their international sovereign bonds. Since 2014, enhanced CACs which permit aggregated voting across separate bond issuances, with appropriate safeguards, have become the established market norm in the contractual terms of most foreign law governed sovereign bonds. The euro area also has its own form of euro area model collective action clause included in all debt securities issued by euro area member states with a maturity over one year. Bonds with such enhanced aggregated CACs provide for amending payment terms directly or by means of a voluntary debt exchange through supermajority voting across series of debt securities capable of aggregation for voting purposes. A number of sovereign bond issues have also included contractual provisions for debtor-creditor engagement.

Since the Principles were first issued and supported by the G20, the number of sovereign issuers with effective, two-way communication through robust investor relations programs (IRPs) has increased dramatically. Such communication includes information and data on the debtor's key economic and

[1] In its Berlin Communiqué in autumn 2004, the G20 welcomed the Principles and conveyed its general support.

financial policies and performance, with creditors providing feedback. Recently, such reporting also includes ESG factors and this is expected to increase over time.[2]

The Principles build on the progress made and lessons learned since the mid-1990s to identify effective measures in order to shore up crisis prevention and, through continuous engagement, encourage their continued evolution and implementation. The Principles promote early crisis containment through information disclosure, debtor-creditor consultations, and policy course correction before problems become unmanageable. They also support creditor actions that can help to minimize spillover risks of market disruption.

In cases where the sovereign debtor anticipates difficulties in meeting its payment obligations, the Principles outline a process for market-based restructuring with a clear preference for pre-arrears restructurings where circumstances permit. All related actions with a view to a successful restructuring process should be based on negotiations between the sovereign debtor and its creditors that involve shared information, high levels of transparency, are conducted in good faith, and seek to achieve a fair outcome for all stakeholders. Such a process should minimize damage to the borrowing country's economy and maximize the likelihood that market access will be restored as soon as possible under sustainable macroeconomic conditions.

These Principles are drafted broadly to apply to situations across the economic spectrum of sovereign debtors with varying degrees of actual or potential market access, including low-income countries, emerging market countries and advanced economy countries.[3] Also, these Principles are intended broadly to inform the expectations and behavior of different types of private creditors, including banks, investment funds, asset managers and other commercial creditors.

However, because individual cases will invariably involve different circumstances, the Principles should be applied flexibly on a case-by-case basis, and are strictly voluntary. Accordingly, no provision of the Principles by itself creates a legal obligation for any party, whether as a matter of contract, comity, or otherwise. Moreover, nothing in the Principles (or in any party's endorsement thereof) shall be deemed to constitute a waiver of such party's legal rights or require a waiver thereof.

GOVERNANCE

The Group of Trustees and its role. The Group of Trustees is the guardian of the Principles. The Group consists of current and former leaders in global finance from both the official and private sectors with exceptional experience and credibility. The Group has three co-chairs. The Group's mandate is to review the evolution of the international financial system as it relates to emerging markets and other major debtor countries, review the development and implementation of the Principles, and make and adopt proposals for modification of the Principles as needed. The Trustees typically meet once or twice a year to review the progress being made on the implementation of the Principles within the framework of the international financial architecture at the time of the IMF/World Bank and IIF Annual and Spring Meetings. The Group

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[2] The IIF is currently updating its long-standing annual Assessment of Investor Relations and Data Dissemination Practices to better gauge how sovereign debtors are engaging with creditors on ESG issues.

[3] When first published in 2004, these Principles applied to relations between private sector creditors and emerging market sovereign debtors and were based on extensive and broadly based discussions among these parties. In 2010, based on the recommendation of a PCG Working Group on the Applicability of the Principles, the Trustees agreed to broaden the applicability of the Principles to go beyond the traditional emerging market sovereign issuers to encompass on a voluntary basis all sovereign issuers, as well as cases of debt restructuring in which the state plays a major role in influencing the legal and other key parameters of debt restructuring. The Group of Trustees also agreed to drop the reference to emerging markets from the title of the Principles. For more details, see Annex II of the October 2010 Report of the PCG on the 2010 Implementation of the *Principles for Stable Capital Flows and Fair Debt Restructuring*.

oversees the work of the Principles Consultative Group, a select group of finance and central bank officials, and senior representatives of the private finance sector.

The Principles Consultative Group (PCG) and its role. The PCG includes finance ministry and central bank officials from a diverse group of emerging and mature markets (including both debtor and creditor countries) and senior representatives of the private financial community. The membership of the Group has increased since its first meeting in 2005 to represent more adequately the evolution of global finance in emerging markets and other debtor countries. The PCG maintains an appropriate balance between private and public sector members, as well as membership balanced in geographical scope and operates by consensus. PCG meetings are held regularly to discuss implementation issues, country cases, and implications of developments in global capital and financial markets. Members enrich PCG discussions with diverse experiences and perspectives. The PCG also continues to provide feedback to country and multilateral authorities on the implementation of the Principles, policy options, and adjustment needs.

The IIF acts as the Secretariat for both the Trustees and the PCG.

PRINCIPLES

1. Timely Flow of Information and Transparency

General Disclosure Practice. Sovereign debtors should ensure timely disclosure of relevant information so that creditors are in a position to make informed assessments of the debtors' economic and financial situation, including overall levels of indebtedness, interest and amortization schedules over the medium term, and any state-contingent payments. It is also important to disclose the breakdown of obligations by class of creditor. Such disclosure is important in order to establish a common understanding of a country's fiscal and balance of payments outlook and to allow creditors to make informed and prudent risk management and investment decisions—including in the context of climate and other ESG factors, as relevant. To the extent feasible, private creditors should be provided relevant information at the same time as official bilateral creditors.

Debt Stock and Creditor Disclosure. The Voluntary Principles for Debt Transparency are an important addition in terms of transparency by the private sector and participation by commercial lenders on a voluntary basis would benefit all stakeholders. These voluntary principles are intended to apply to the private sector and are designed to complement the G20 Operational Guidelines for Sustainable Financing and other public sector initiatives with a view to facilitating the important goal of achieving regular and accurate transparency by both the official and private sectors in respect of financial commitments owed to all stakeholders by sovereign debtors. [4,5]

Specific Disclosure Practice. In the context of a potential restructuring, the debtor should disclose to all potentially affected creditors in a timely manner (a) the maturity and interest rate structures of all external financial sovereign obligations disaggregated according to class of creditor and type of obligation, including its proposed treatment of such obligations; and (b) the central aspects, including assumptions, of its economic policies. The debtor should inform creditors regarding agreements reached with other creditors (including other commercial creditors, and official bilateral creditors), the IMF and any multilateral or

[4] Recent public sector initiatives include the modernization of the IMF/WB Debt Sustainability Analysis Framework and the enhancement of the IMF's Debt Limits Policy—both of which now require more comprehensive public debt data collection.
[5] If debt arrangements within the scope of the Voluntary Principles for Debt Transparency are bound by confidentiality, private sector participants wishing to comply with those Principles and each relevant sovereign debtor should agree suitable carve-outs to support the relevant disclosures to the repository managed by the OECD. For additional guidance, see Implementation Note to the IIF Voluntary Principles for Debt Transparency.

regional development banks, as relevant in a timely manner. Confidentiality of material non-public information must be ensured, for example, through non-disclosure agreements.

Crisis Prevention. Effective sovereign debt crisis prevention is a shared responsibility that requires — ongoing and regular data and policy transparency by sovereign debtors and open dialogue between sovereign debtors and their creditors. Crisis prevention is also supported by sustained surveillance efforts by international and regional institutions and private sector groups, actions by regulatory agencies, accounting and other international standard setters, as well as vigilance and enhanced risk management by private creditors and market participants in general. Economic surveillance mandates of international and, where applicable, regional institutions (such as the IMF and multilateral development banks) are an important aspect of the assessment process and the publication of their results in the public domain in a timely manner benefits all stakeholders.

Timeliness of Surveillance. The effectiveness and timeliness of (a) surveillance by international and regional institutions of the consistency between a sovereign's policy plans and their actual execution, (b) national policies with regional commitments, and (c) undertakings of countries that are members of currency unions are all critical for promoting sustainable policies and market confidence.

Market Participants. Private creditors and other market participants are responsible for formulating accurate and appropriate assessments of underlying trends in market risks as well as the credit and sovereign risks of individual debtors, thus ensuring a realistic pricing of sovereign debt instruments. In this context, private creditors and market participants should undertake their own due diligence, drawing inter alia on all available information from the sovereign debtors themselves and the assessments by regional and international financial institutions. The assessment of current economic and financial developments and the identification of underlying or emerging risks by private sector groups such as the IIF Committee on Sovereign Risk Management can also play a constructive role in this process.

Regulatory Agencies. Regulatory agencies should take care in setting capital and other requirements for covered credit institutions to avoid distortions in market signals and bias in risk management practices.

Credit Ratings Agencies (CRAs). Rigorous, independent, transparent, and timely assessments of creditworthiness by CRAs can also provide useful complementary information to market participants, investors, and sovereign debtors and enhance crisis prevention and resolution both in pre arrears and post arrears circumstances.

ESG Considerations. Environmental sustainability and other material ESG factors have an important role to play in sovereign debt markets and should be considered by authorities as they shape policy frameworks. As the market environment continues to evolve, greater consideration of ESG factors in investment decisions will require greater transparency on ESG related factors so that progress can be measured, investor feedback gathered, and applicable policies strengthened.

2. Close Debtor-Creditor Dialogue and Cooperation to Enhance Debt Sustainability

Regular Dialogue. All sovereign debtors and investors should engage in a regular dialogue regarding information and data on key economic, financial and non-financial policies (including on ESG issues) and performance. Investor Relations Programs (IRPs) have emerged as a proven vehicle, and countries should implement such programs and take analogous actions in the context of their official bilateral debt exposure.

Best Practices for Investor Relations. All sovereign debtors should seek to implement the best practices for investor relations, and update them as these evolve. Communication techniques should include creating an investor relations office with a qualified core staff; disseminating accurate and timely data/information on

economic, financial and non-financial performance (including on ESG issues and any related reporting) through e-mail, investor relations websites or other electronic means; establishing formal channels of communication between policymakers and investors through bilateral meetings, investor teleconferences, and videoconferences; and maintaining a comprehensive list of contact information for relevant market participants. Investors are encouraged to participate in IRPs and provide feedback on such information and data. Debtors and investors should collaborate to refine these techniques over time. Enhancement of investor relations under IRPs facilitates timely data and policy transparency and a regular dialogue between sovereign debtors and their creditors and establishes an effective channel of communication and feedback which enhance market confidence and supports market access even during periods of market tensions and turbulence.

Policy Action. Sovereign debtors should implement economic, financial, and non-financial policies and sound fiscal policies, including structural measures consistent with macroeconomic and financial stability and public debt sustainability. Sovereign debtors raising foreign currency funds should consider appropriate hedging or other arrangements to mitigate the risk of currency mismatch, weighing appropriately the associated cost. More generally, sovereign debtors should promote sustainable economic growth. Country authorities should avoid additional exchange controls on outflows, except for temporary periods and only in exceptional circumstances. Sovereign debtors' policymaking should also take into account their commitments to global initiatives to address climate change and loss of biodiversity. It is vital that the authorities in the borrowing country develop political support for these measures. Given growing investor interest in climate and ESG finance, such an overall approach may bolster market confidence, thus supporting stable capital flows.

Consultations. Building on IRPs, sovereign debtors should consult with creditors to explore alternative market-based approaches to address debt service problems before a restructuring becomes inevitable. The goal of such consultations is to avoid misunderstandings about policy directions, build investor confidence on the strength of policy measures, and support continuous market access. Consultations would not normally focus on specific financial transactions, and their precise format will depend on existing market circumstances.

In any event, creditor participants in such consultations must not exploit them to gain a commercial benefit for trading purposes. Applicable legal restrictions regarding material non-public information must be observed.

Funding Instruments with ESG or Payment Adjustment Features. Sovereign debtors should carefully consider the choice and tenor of funding instruments including, where appropriate, ESG-linked transactions and their potential implications for maintaining stable and sustainable capital flows. More broadly, recognizing the high costs of potential sovereign debt restructurings and their related spillover concerns with respect to financial stability, certain sovereign debtors and their creditors may wish to consider appropriate instruments with ex ante contractual features which provide cash flow relief in well-defined circumstances and according to criteria that are both transparent and objectively measurable. In particular, sovereign catastrophe resilient debt instruments which incorporate provisions which extend debt servicing obligations if one or more specified events occur, could play a meaningful role in sovereign debt risk management for the appropriate type of sovereign debtor.

3. Good Faith Actions in Cases of Debt Restructuring

a. Voluntary Good Faith Process

Good faith negotiations remain the most effective framework for reaching voluntary debt restructuring agreements among sovereign debtors and their diversified private creditor community when a restructuring

becomes inevitable. Such a framework has proved to be efficient in facilitating timely and appropriate agreements on crisis resolution, while containing the adverse impact on market confidence and other disruptions and concerns caused by spillover risks. Such a process is based on sound policies that seek to establish conditions for renewed market access on a timely basis, viable macroeconomic growth, and fiscal and balance of payments sustainability in the medium term. A sovereign debtor and its creditors should agree at the earliest stage that timely good faith negotiations are the optimal course of action toward these goals, decreasing the time for their achievement and reducing the risk of costly disruptions, including litigation risk. A sovereign debtor and its creditors should cooperate, based on relevant information exchange, in order to identify the best means for placing the country on a sustainable economic adjustment path, while also preserving asset values during the restructuring process. In this context, sovereign debtors and creditors should benefit from the IMF implementing its lending policies, including the criteria for good faith negotiations and encouraging the sovereign debtor to share relevant data and projections with creditors on a timely basis within the overall framework of good faith engagement.

In practice, sovereign debtors may seek a restructuring in circumstances where they have severe liquidity constraints or where their debt is projected to be unsustainable in the medium term even after reasonably feasible economic adjustment. In either circumstance, sovereign debtors and their creditors should strive to reach and implement voluntary agreements on a timely basis to promote sustainable growth and to help minimize adverse market reactions and contagion effects.

Accounting and regulatory standards and their interaction across types of financial institutions and jurisdictions may result in additional incentives for debtors and creditors engaged in good faith negotiations. Where relevant, the standard-setting bodies responsible for accounting and supervision rules, as well as the interpretation bodies, should be aware of the need to minimize inconsistencies between accounting and supervision practices and conflicts across jurisdictions and types of covered credit institutions.

Restoring market access as well as debt sustainability for a stressed sovereign debtor as early as possible is generally critical. Early re-accessing of capital markets at reasonable costs is also essential for those sovereign debtors hoping to reduce and eliminate their reliance on the financial support provided by the IMF and multilateral, regional and bilateral creditors.

Liquidity Support for Debtor Reform Efforts. As efforts to consult with creditors and to upgrade policies take hold, creditors should consider, if requested by the sovereign debtor—and to the extent consistent with their business objectives and legal obligations—appropriate requests for the voluntary, temporary maintenance of trade and inter-bank advances, and/or the rollover of short-term maturities on public and private sector obligations, if necessary to support a sovereign debtor's efforts to avoid a broad debt restructuring. The prospects of a favorable creditor response to such requests will be enhanced by the sovereign debtor's commitment to a strong adjustment program and to debt and fiscal transparency.

b. Debtor and Creditor Actions during Debt Restructuring

To facilitate good faith negotiations, sovereign debtors should engage in enhanced data and policy transparency and dialogue with their private creditors at the earliest possible stage - if necessary, subject to confidentiality agreements -should a debt restructuring become probable. The early release of information on the scale of the adjustment needs and the range and scale of the sovereign debtor's proposed corrective economic policies will help minimize adverse market reactions and facilitate continued or early resumption of market access. The legal sanctity of contracts should be respected and any modifications to these contracts or waivers required in relation thereto should be sought in accordance with their terms.

In the debt restructuring process, early discussions are necessary between the sovereign debtor and private creditors and/or any creditor committee which is formed. These discussions should be conducted in close consultation with the official sector on the overall multi-year macroeconomic framework and objectives, including the broad fiscal, financial, and non-financial policy adjustments and targets. The discussions on the sovereign debtor's payment capacity should consider, inter alia, the outlook for medium term growth, export revenues, and market access. Such discussions are important in facilitating a debt restructuring agreement on the basis of fair burden sharing, thus promoting high private sector participation, restored market access, renewed output growth, and debt sustainability. In this context, discussions with private creditors should ideally occur broadly contemporaneously with discussions with official bilateral creditors, the IMF and other relevant multilateral institutions. To facilitate the debt restructuring process sovereign debtors should retain legal and financial advisors experienced in sovereign debt restructuring matters, with a view to facilitating the debt restructuring process.

The attainment and/or maintenance of debt sustainability over time is a dynamic, complex process that depends critically on the quality and credibility of actual and prospective economic adjustment policies to be undertaken by the sovereign debtor, the direction of macroeconomic structural policies, the terms and volume of financial support or debt relief provided by official and private creditors, and the prospects for the continuation or resumption of market access at reasonable terms. As such, the debt sustainability analysis entails judgments and assessments that are often not easily amenable to quantitative rules and that require revisions as macroeconomic parameters evolve. The contributions toward achieving debt sustainability by private creditors as well as other creditors should be considered simultaneously, with no one creditor group considered as a residual source of funding on an ex ante basis.

In this context, the IMF plays a very important role by providing objective analysis and information on macroeconomic policies that are reasonably feasible and in line with medium-term funding needs, consistent with debt sustainability considerations. Given this, regular and well-structured engagement between the IMF and private creditors is very valuable—not least because creditors have important perspectives on market dynamics and market reaccess. Consent by sovereign debtors to the IMF's engagement with private creditors and/or with the private creditors' advisors in this manner can support sovereign debtors' investor relations both in normal and distressed situations. Further, regular engagement between private creditors, the Paris Club and other groups of official bilateral creditors is encouraged.

Contractual Mechanisms – Bonded Debt. All sovereign debtors should include in new bond issues, denominated in a foreign or a common regional currency, enhanced aggregated CACs. More generally, the bond documentation should be publicly available and easily accessible to all investors, including the terms and conditions of the bonds. Sovereign debtors should consider similar arrangements in appropriate instances for their domestic law bonds denominated in local currency as well. Enhanced aggregated CACs allow bond holders across outstanding issues of government securities to decide collectively on whether to accept potential offers from an issuer to modify existing bond terms and conditions and/or participate in a voluntary debt exchange. The use of enhanced aggregated CACs can facilitate voluntary debt restructuring by reducing the chances of a small minority of bond holders acquiring blocking positions in a bond series and imposing demands for preferential treatment. These CACs should be used by sovereign debtors in the spirit in which they were created to facilitate voluntary market based sovereign debt restructurings where that is necessary and not as a tool for introducing unanticipated coersion. For example, using CACs to impose materially inferior terms on non-assenting holders in future restructuring offers in which the holders of newly restructured instruments are voted in conjunction with the remaining original unrestructured instruments or to gerrymander voting procedures once voting preferences have been revealed could cause delays both before and after the launch of a debt restructuring, create legal uncertainty, and give rise to disruptive litigation.

Contractual Mechanisms – Non-bonded Debt. Most countries have debt in many other forms and some low-income countries have little or no debt in the form of internationally traded bonds. Commercial

arrangements of this type (which may be with regulated financial institution and/or non-financial institution creditors subject to differing levels of regulatory oversight) are more private in nature than publicly-traded bonds and do not benefit from aggregated CACs which are included in bond voting provisions. Sovereign debtors and their counterparties should, where possible, consider the inclusion of contractual mechanisms in loans and other non-bonded debt in order to facilitate the implementation of any future restructuring.

In instances where sovereign debt restructurings are necessary, consultation on the value of integrating ESG related elements into instruments that result from the restructuring process or into the debt restructuring transaction (such as debt for nature swaps) could be valuable to all stakeholders including in both official and private sectors. In cases in which the sovereign's debt service capacity is subject to high variance due to exogenous factors such as commodity prices, the discussions with creditors could include consideration of including value-recovery instruments.

c. Creditor Committee Policies and Practices

The appropriate format and role of negotiation vehicles such as a creditor committee should be determined flexibly, and on a case-by-case basis. When arrears have occurred or are anticipated, private creditors should organize themselves and any creditor committee should be formed as early as possible in the debt restructuring process, preferably before arrears have occurred, which should be avoided if possible. Sovereign debtors should engage in negotiations with any such duly established creditor committee in a timely manner directly or through advisors (in a manner consistent with the principles laid out in the IMF's policies of lending to debtors in arrears which require good faith efforts to reach a restructuring agreement with creditors). Past restructurings provide strong evidence that such engagement with creditor committees increases the likelihood of reaching a voluntary agreement on debt restructuring in a timely manner and facilitates market reaccess based on market realities.

Any creditor committee which is formed, should adopt rules and practices, including appropriate mechanisms to protect material non-public information; coordinate across affected instruments and with other affected creditor classes with a view to forming a single committee (with sub-committees by type of financial instrument as an alternative to multiple committees if the creditors decide to do so); agree an approach for the payment of the committee's fees; be a forum for the debtor to present its economic program and financing proposals; collect and analyze economic data; gather, evaluate, and disseminate creditor input on financing proposals; and generally act as a communication link between the debtor and the relevant creditor community. Private creditors that are members of any creditor committee in discussions with the sovereign debtor should abide by established regulatory standards and inter alia respect the confidentiality of any material non-public information that may become available during this process.

In cases where countries require financial assistance from multiple official bilateral creditors, any restructuring process would be aided by the formulation of timely and effective procedures for reaching understandings on the scale, terms, and conditionality of any envisaged financial assistance from these creditors so as to facilitate the negotiations between the sovereign debtor and any private creditor committee.

Private creditor committees incur costs, for example, professional advisor fees. Fiduciary structures for many asset managers and other bond investors limit the flexibility of some types of creditors in relation to absorbing their own fees. It is helpful therefore to the overall process and the representativeness of committees for creditors and debtors to agree an approach to the payment of reasonable costs based on generally accepted practices. For example, the debtor could meet some or all the fees incurred by any creditor committee formed, and/or such costs could be met through the restructuring transaction itself, whether as part of a coupon payment, provision of new bonds or otherwise.

4. Fair Treatment

Seeking a Fair and Comparable Treatment. Sovereign debtors should treat fairly and seek comparable treatment from creditors (recognizing that there may be a basis for some variation in the treatment of differently situated classes of creditors). This includes seeking comparable debt restructuring from all official bilateral creditors. Fair treatment of all creditors is in the interest of both sovereign debtors and creditors. It lessens the burden on all creditors and, by ensuring a fair burden sharing, encourages creditors to participate voluntarily in debt resolution and minimizes any adverse impact on the investor demand for existing or new issues of sovereign debt by the sovereign debtor undergoing debt restructuring or by others in the asset class.

No creditor, creditor group or instrument should be excluded ex ante from participating in debt restructuring and decisions need to be made on a case-by-case basis in close coordination with relevant stakeholders. Broad creditor participation in debt restructuring operations is essential to ensure fair burden sharing, and to assess the impact of the provision of new financial assistance, as well as the appropriate ranking of creditor claims. For example, many countries have significant lending originating from state-owned enterprises (SOEs) on terms categorized as commercial (it being understood that, as private creditors, most of their financing, operations and lending are market-based), and this exposure should feature in evaluations concerning fair and comparable creditor treatment in instances where restructurings are necessary. However, in line with general practice, claims related to instruments with an original maturity of one year or less, certain disclosed international trade related facilities and interbank advances could be excluded from the restructuring or treated separately where the debtor and creditors agree that such treatment is warranted to mitigate economic dislocation that would be detrimental to creditor recovery in general.

Preferred Creditor Status (PCS). De facto PCS for the IMF and many major multilateral development banks has been accepted in debt restructurings on the basis that such institutions provide new lending and policy advice in support of the debtor adjustment program objectives designed to restore medium-term external viability and facilitate the resolution of any balance of payment problems, without restructuring the loans made by such institutions (it being understood that comparable financing from private sector creditors on those terms would generally be unavailable in these circumstances). More generally, in case of debt restructuring, the process would benefit from transparency in relation to the scope of claims subject to the restructuring and any additional financing provided by these and any other development finance institutions. Such transparency would facilitate engagement among all stakeholders and support stable inflows of capital from the private sector.

Valuation Methodology. In assessing fair treatment in restructurings, private creditors assess the impact of proposed restructuring terms by using a net present value methodology under which new proposed payment flows are discounted using a discount rate which is the sum of a risk-free rate for the currency in question and a sovereign risk spread (this discount rate is the expected exit yield, the assessment of which may vary by creditor). The inherent potential cost of providing new money is also assessed by them through the same approach. Paris Club and other official sector methodology typically use discount rates which do not include a sovereign risk component, reflecting different funding costs and regulatory capital considerations. Relative assessments of comparability of treatment will need to be responsive to these differences.

Fairness of Voting. Bonds, loans, and other financial instruments owned or controlled by the sovereign debtor should be disenfranchised and not permitted to influence the outcome of a vote among creditors on a restructuring.