PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

2022
IMPLEMENTATION NOTE
BY THE
PRINCIPLES CONSULTATIVE GROUP

WITH A COMPREHENSIVE UPDATE ON INVESTOR RELATIONS PROGRAMS AND DATA TRANSPARENCY

OCTOBER 2022

TRANSPARENCY COOPERATION GOOD FAITH FAIR TREATMENT

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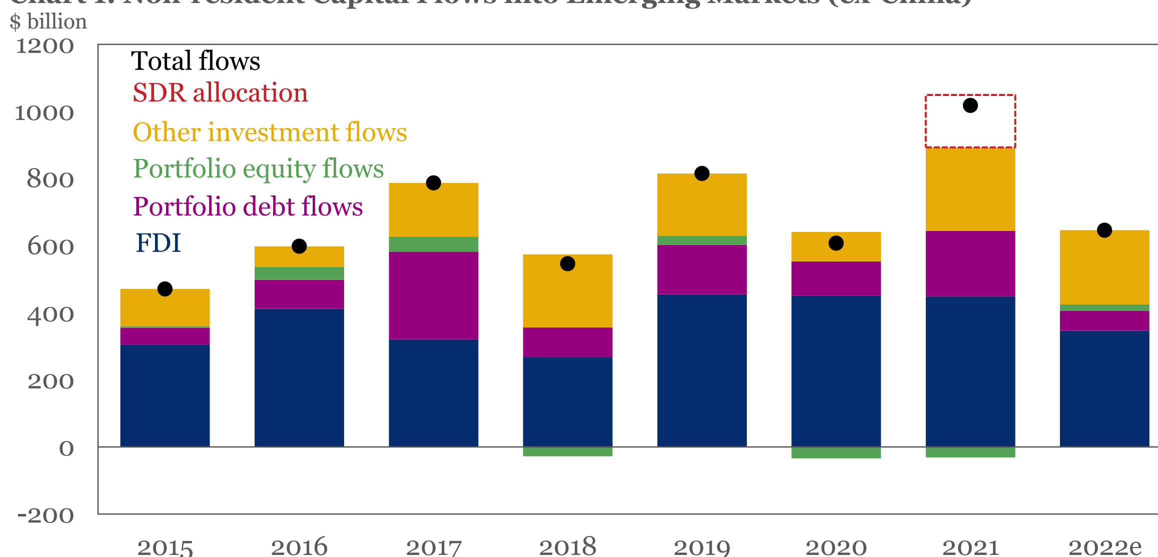
I. Overview

The 2021 global economic rebound that followed the pandemic-induced contraction of 2020 has given way to a broad-based slowdown in 2022. Global economic growth is expected to slow to 3.2% in 2022 and 2.7% in 2023, after having rebounded to 6% in 2021 following the pandemic-induced contraction of 2020.[1] Factors contributing to the downturn include Russia's invasion of Ukraine, strict Omicron lockdowns in China, and the sharp tightening in global financial conditions as central banks move into inflation-fighting mode. Projected growth for emerging market and developing economies (EMDEs) stands at only 3.7% in 2022 and 2023 down from 6.6% in 2021. Amid widespread financial market disruption, capital flows to emerging markets have also slowed sharply. According to the latest estimates[2] from the Institute of International Finance (IIF), non-resident capital flows to the 24 major emerging markets (excluding China) monitored by the IIF are expected to decline by over 25% to $645 billion in 2022 (Chart 1), excluding last year's Special Drawing Rights (SDR) allocation from the International Monetary Fund (IMF). Portfolio debt flows are expected to decline to a mere $60 billion in 2022, which is less than half the $130 billion average over the 2015-21 period. This would be the lowest reading since $50 billion in such flows were recorded in 2015. This projection also marks a sharp decline from the $195 billion in portfolio debt flows registered in 2021 and points to more challenging conditions in 2022 for emerging markets than at the height of the pandemic in 2020, when debt flows breached the $100 billion threshold.

Chart 1: Non-resident Capital Flows into Emerging Markets (ex-China)



Source: IIF

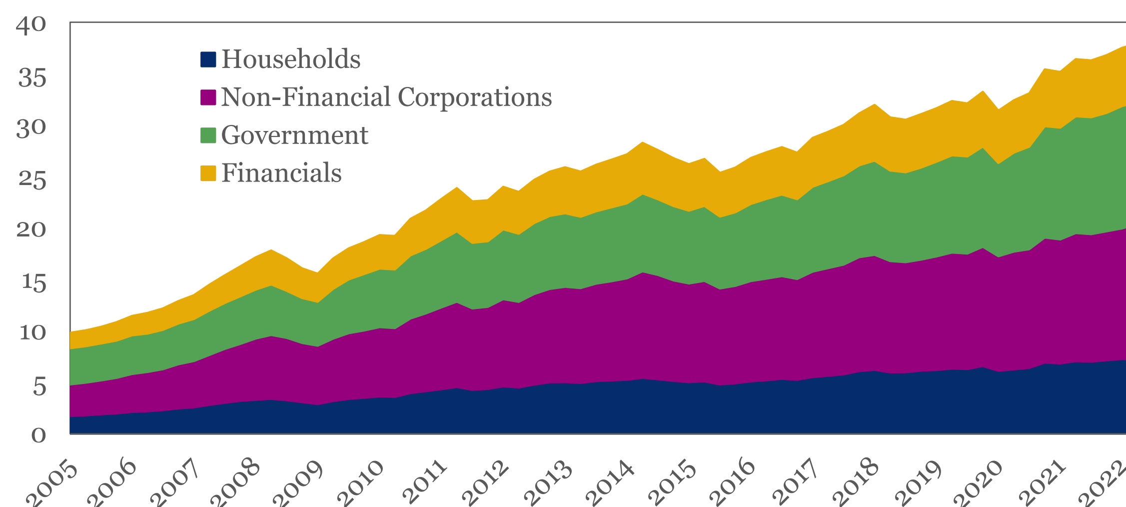
More broadly, the lingering effects of the COVID-19 pandemic and sharp slowdown in global growth—coupled with higher borrowing costs, inflation, currency depreciation and the rising incidence of droughts and floods related to climate change—has resulted in a very challenging sovereign debt market context for EMDEs in 2022–particularly given high and rising debt levels. As noted in the IIF's latest Global Debt Monitor, at the end of Q2 2022 emerging market debt (excluding China) rose to a record $37.9 trillion, up from $33.2 trillion at end-2019 (Chart 2). The total rise in emerging market debt since the onset of the pandemic now stands at $4.7 trillion, with governments and non-financial corporates accounting for nearly 45% and 35% of the increase, respectively.[3] Since Q4 2019, total debt across frontier markets surged by

[1] https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022
[2] https://www.iif.com/Publications/ID/4916/Capital-Flows-Report-Rising-Global-Recession-Risk
[3] https://www.iif.com/Publications/ID/5069/Global-Debt-Monitor-Growing-Risks-for-Emerging-Markets

$450 billion, reaching a new high of $3.4 trillion at Q2 2022.

With rising inflation and USD strength undermining creditworthiness of many sovereign borrowers in developing countries, disparities in market access have become starker this year. As mature markets raise policy rates to curb inflationary pressures, USD bond spreads for high-yield borrowers have already surpassed levels last seen at the peak of the COVID-19 crisis. In contrast, spread widening has been more limited for investment grade issuers. Looking at issuance volumes, EM sovereigns have raised some $60 billion from Eurobond markets since the start of the year (vs. over $105 billion during the same period last year). While most of this Eurobond supply was from investment grade sovereigns, overall issuance has been weak as higher funding costs hit borrower appetite to tap international bond markets

Chart 2: Emerging Market Debt (ex-China)
$ trillion, as of Q2-2022

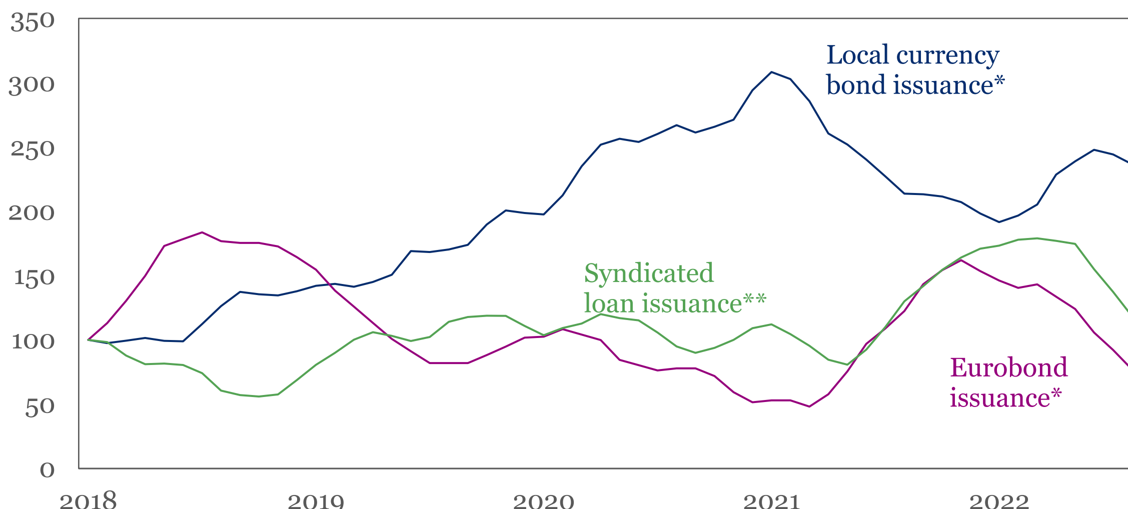


Source: IIF Global Debt Monitor

Elevated debt vulnerabilities have become particularly acute in low- and lower-middle income countries, which have seen a sharp buildup in external liabilities over the past decade, notably to official bilateral and multilateral creditors.[4] During the same period, most of these countries have also accumulated a large amount of domestic debt in the face of persistently large twin deficits. At around 52% of GDP, government debt across low and lower-middle income countries is over 20 percentage points higher than in 2011, though it is lower than seen in 1996 when the HIPC initiative was launched (64% of GDP). Against this backdrop, the rapid rise in borrowing costs and weak investor appetite have kept many of these countries away from primary markets this year. Over the first 9 months of 2022, the pace of government Eurobond issuance by these vulnerable countries was some 70% below the same period in 2021. Sovereign bond issuance in domestic markets has also weakened, amounting to some $760 billion over the first 9 months of 2022—around 15% lower than during the same period in 2021 (Chart 3). This slowdown was in part in line with narrowing budget deficits in 2022.

[4] Total external debt of low and lower-middle income countries that were eligible to the G20 Debt Service Suspension Initiative (DSSI) rose from $330 billion in 2010 to around $870 billion in 2020, with Pakistan, Nigeria, and Bangladesh seeing the sharpest buildup. Of that total, $568 billion was long-term public or publicly guaranteed external debt, with official multilateral and bilateral creditors accounting for nearly 80% of total external public debt. China has become the largest official bilateral creditor of many of these countries over the past decade.

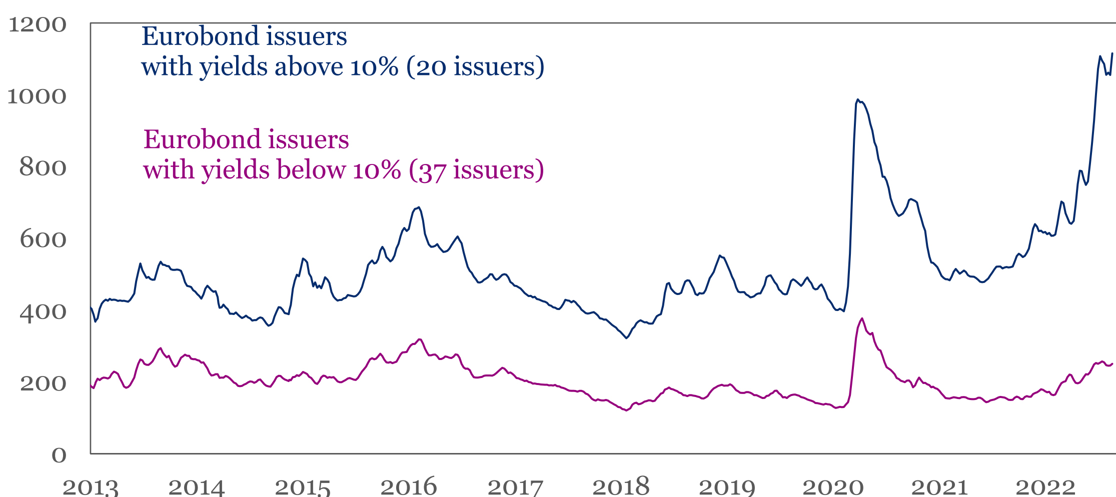
Chart 3: Debt Issuance across Low and Lower-middle Income Countires (ex-China)
index, end-2017=100, sovereign debt issuance volumes, 12mms



*Source: Bloomberg, IIF; *tenor > 1yr, **includes both FX and LC loans*

With investors' focus increasingly turning to public debt burdens in a rising rate environment, Eurobond spreads for high-yield sovereigns have surpassed levels seen at the peak of the Covid crisis (Chart 4). Compared to the beginning of the year, sovereign CDS spreads suggest a much higher probability of default for many of these countries (Chart 5). Commercial banking flows to low and lower-middle income countries also reversed sharply in Q4 2021 as the Omicron variant emerged, with net outflows of $2 billion vs. average net inflows near $2.5 billion over the previous four quarters. Banking flows to these countries have broadly remained in negative territory in 2022.

Chart 4: Emerging Market Eurobond Spreads are at Record Highs for High-yield Issuer
basis points, median, 3-week moving average



Source: Bloomberg, IIF

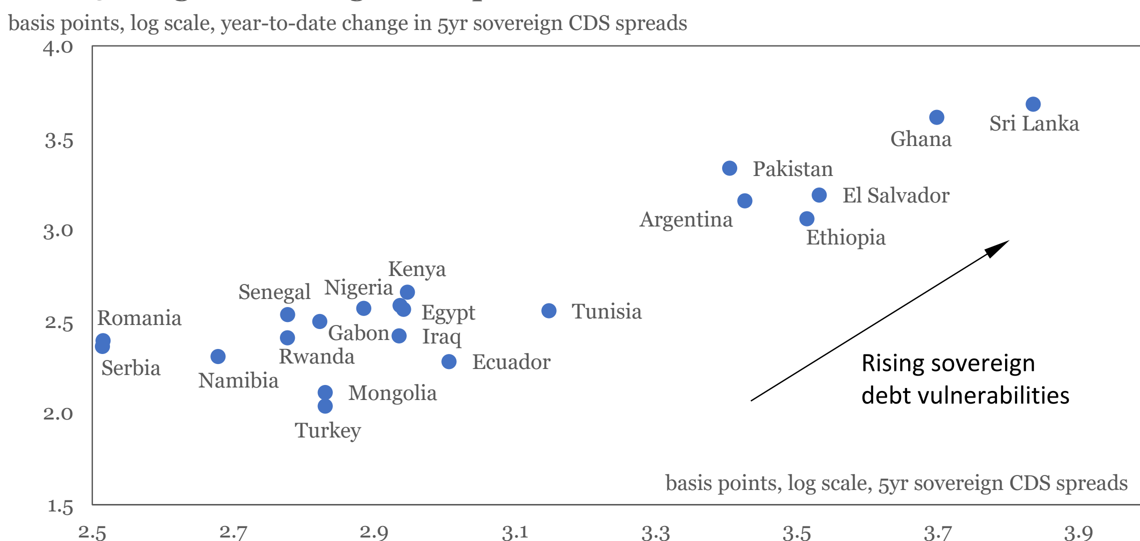
Heightened funding challenges have already forced some high-yield issuers to seek IMF support, including Sri Lanka[5] and Ghana. Indeed, IMF support to sovereign borrowers is currently at a record high, standing at $140 billion across 44 different programs.[6] More countries are likely to seek and receive IMF funding, particularly those that have been hit hardest by higher food and energy prices.[7]According to the latest analysis by the Food Security Information Network, 35 developing countries are currently facing a major food crisis. Of these, 21 are experiencing chronic food insecurity crises, reflecting the impact of climate change and other structural challenges dating back to well before Russia's invasion of Ukraine. Looking at their debt dynamics, 16 of them are already in or at high risk of debt distress.

With little potential for near-term deleveraging in the face of an abrupt slowdown in growth and rising social tensions due to higher food prices, the rapid buildup in emerging market sovereign debt levels has greatly increased the likelihood of further debt strains, particularly in highly-indebted economies. While there is significant concern about future debt sustainability challenges, the rise in sovereign debt defaults has been limited to date despite the sharp buildup in debt levels in recent years (Table 1). There are only seven countries with ongoing sovereign bond default cases (Lebanon, Russia, Belarus, Sri Lanka, Suriname, Venezuela, Zambia), and the total amount of the sovereign debt securities in default (including loans and bonds) stands at over $376 billion—down from $445 billion in 2020 following the successful resolution of defaults in Ecuador and Argentina (Box 1).[8] With over 38% of outstanding sovereign debt in default owed to bondholders, loans from banks and other private creditors account for 3% and over 7% of the total defaulted debt, respectively. Official bilateral creditor loans in default represent over 48% of the total for this group of countries.

In fact, with private creditors—notably bondholders—overtaking the official sector as the largest creditor to many emerging market sovereigns, the time it takes to resolve debt restructurings has decreased significantly over the past decade. Quicker debt restructuring provides substantial benefits, given the time-consuming and costly nature of sovereign debt workouts.[9] Recent sovereign debt restructurings including only privately-held bonds and commercial bank loans have had a shorter average duration than previous reprofilings. Since 2014, the duration of renegotiations on privately-held bonds and loans (excluding pre-emptive debt restructurings) stands at approximately 1.1 years and 1.3 years, respectively.[10] This was much lower than the average duration of 3.5 years over the 1978-2010 period. In contrast, defaults to official creditors still take much longer to resolve compared to defaults on bonds and commercial bank loans, due partly to coordination challenges among official creditors.[11] Indeed, many low and lower middle-income countries have remained in default to bilateral official creditors for long periods of time. This is a significant problem, given that over 60% of these countries are at high risk of debt distress. Around 40% of the external debt obligations of these countries are owned to official bilateral creditors and another 40% to official multilateral creditors (though the latter category of debt is not subject to restructuring).

[5] https://www.iif.com/Publications/ID/5065/Economic-Views-Sri-Lankas-Debt-Servicing-Capacity
[6] https://www.ft.com/content/eddedee3-669d-42cc-9597-33609a8bff99
[7] https://www.iif.com/Publications/ID/5052/Weekly-Insight-Double-Threat--Food-Insecurity-and-Debt-Distress; https://www.imf.org/en/Publications/IMF-Notes/Issues/2022/09/27/Tackling-the-Global-Food-Crisis-Impact-Policy-Response-and-the-Role-of-the-IMF-523919
[8] https://www.bankofcanada.ca/2022/08/staff-analytical-note-2022-11/
[9] https://openknowledge.worldbank.org/handle/10986/37945
[10] https://www.imf.org/en/Publications/Policy-Papers/Issues/2020/09/30/The-International-Architecture-for-Resolving-Sovereign-Debt-Involving-Private-Sector-49796
[11] https://www.bankofcanada.ca/2020/06/staff-analytical-note-2020-13/

Chart 5: Surge in Sovereign CDS Spreads



Source: Bloomberg, IIF

Lack of transparency remains a fundamental barrier to rapid and successful resolution of debt strains. The IMF/World Bank debt sustainability analysis (DSA) framework—an integral part of country credit analysis and debt restructuring processes--requires the collection of much qualitative and quantitative information beyond narrowly-defined debt statistics, including data on governments' contingent liabilities associated with state-owned enterprises, pensions, and state/local governments, as well as creditor profiles. However, many DSA inputs are still not publicly available; greater access would benefit efforts such as the OECD Debt Transparency Initiative (created to operationalize the Voluntary Principles for Debt Transparency). In the event of restructuring, early and simultaneous engagement by debtor countries with all creditors—as opposed to sequential information-sharing—is vital to achieving comparable treatment and to reducing the duration of debt workouts. More broadly, it is important to include the private sector (and borrowing countries) in the design of initiatives to enhance the international sovereign debt architecture, to help ensure that these are conducive to private sector participation. In this context the Private Sector Debt Working Group convened by the UK Treasury in 2021 (regarding the design of majority voting provisions in sovereign loans as well as climate-resilient debt clauses) is a welcome example of a proactive consultative process (see Chapter 3).

Given the significant changes in sovereign debt markets over the past decade, and in an environment of significant market volatility, the recently updated *Principles for Stable Capital Flows and Fair Debt Restructuring* provides a helpful framework for crisis prevention and resolution, particularly in cases of sovereign debt distress or restructuring, such as those featured in this report (See Box 2). The *Principles* are a voluntary code of conduct between sovereign debt issuers and their private sector creditors, aiming to foster enhanced debt transparency (Box 3) and close debtor-creditor dialogue—particularly through investor relations programs (See Chapter 2). The updated *Principles* are designed to complement public sector efforts[12] to strengthen international sovereign debt architecture (See Box 5) and outline a process for

[12] These include the IMF's review of its Lending into Arrears and other related policies: https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/05/18/Reviews-of-the-Fund-s-Sovereign-ARREARS-Policies-and-Perimeter-517997

market-based restructuring with a clear preference for pre-arrears restructurings where circumstances permit. In cases where the sovereign debtor anticipates difficulties in meeting its payment obligations, the *Principles* strive for effective crisis resolution through, inter alia, good-faith negotiations with representative groups of creditors and non-discriminatory treatment of all creditors. The principles articulate the vital role of ESG considerations in sovereign debt markets to mobilize private capital for sustainable growth and development in emerging markets. The *Principles* are monitored by two oversight bodies—the Group of Trustees and the Principles Consultative Group (PCG), which include senior officials from developed and emerging-market countries, as well as senior bankers and investors (See Annex 1 and 2).

Box 1. PCG Discussions of Country Cases

The PCG has closely monitored debt treatment efforts under the Common Framework and has discussed ongoing debt restructuring efforts in Sri Lanka. The group has also received regular updates on developments in Ukraine and Russia and briefings on countries with growing debt vulnerabilities, including Tunisia and Ghana.

- **Sri Lanka** failed to make coupon payments on its international bonds due on April 18th, 2022 and was assigned a default rating after the 30-day grace period expired in May (Table 1). Although this default applies only to Sri Lanka's long-term external debt, heightened political risks in the country could lead to a default on local-currency debt and thus negatively impact banking sector capitalization. IMF staff and the Sri Lankan authorities have reached a staff -level agreement to mobilize about $2.9 billion under the IMF's Extended Fund Facility on September 1, 2022. The agreement is subject to approval of the IMF management and adoption by the Executive Board. Although the details of the IMF program are yet to be announced, Sri Lanka has already initiated engagement with private and official creditors to start debt restructuring talks.

- Following **Russia**'s invasion of Ukraine in February 2022 and the subsequent raft of Western sanctions against Moscow, the U.S. Treasury allowed the Russian government to continue making coupon payments in U.S. dollars to holders of its external bonds until early April. On April 4th ,the U.S. Treasury ceased to provide authorization to U.S. banks for processing coupon payments in U.S. dollars on Russia's Eurobonds. Yet Russia was able to stave off default by continuing to pay under a license from the U.S Treasury's Office of Foreign Assets Control (OFAC) until it expired on May 25th, triggering a default at the end of the 30-day grace period in late June.[13] Regarding local currency sovereign debt, a Russian government decree came into effect in March 2022 barring coupon payments to non-residents, with only residents of Russia receiving payment.[14]

- In August, creditors agreed to the government of **Ukraine**'s proposal of a two-year payment moratorium on nearly $20 billion in external sovereign bonds, with holders representing approximately three quarters of the outstanding total backing the request.[15] Private creditors

[13] https://www.reuters.com/business/finance/russia-makes-early-debt-payment-dash-bid-swerve-default-2022-05-20/
[14] https://perspectives.group.pictet/macroeconomy/default-risk-hangs-over-russian-bonds
[15] https://www.reuters.com/markets/europe/ukraines-creditors-agree-two-year-payment-freeze-almost-20-billion-international-2022-08-10/

viewed freezing payments as reasonable, given *force majeure*, a $1.4 billion payment that had been coming due in early September, and a monthly budget deficit of around $5 billion. Creditors also approved a separate consent solicitation on $2.6 billion of Ukraine's GDP warrants and other similar solicitations for Ukravtodor and Ukrenergo, which are state-owned enterprises with publicly-guaranteed debt. The state-owned gas company Naftogaz received only partial[16] approval from bondholders to defer payments and thus remains in default, although its debts are not currently publicly-guaranteed.[17] The IMF staff discussions with Ukrainian authorities is expected to start soon on Program Monitoring with Board involvement (PMB). The PMB will aim to provide a strong anchor for macroeconomic policies, further catalyze donor support, and help to pave the way towards the upper credit tranche arrangement.

- **Belarus** continues to face difficulties in making payments on its foreign currency debt following the introduction of economic and financial sanctions against the country. In July 2022, Belarus missed a coupon payment on a USD-denominated bond that will mature in 2027.

- In January 2022, **Mali** missed payments on its XOF-denominated debt after the Economic Community of West African States (ECOWAS) imposed sanctions on the country in the aftermath of last year's coup d'état. ECOWAS decided to lift the sanctions in July, and Mali settled all outstanding debt repayments in August.

- **Common Framework countries:** Only Chad, Zambia, and Ethiopia have sought debt treatment under the Common Framework to date. However, the flow of information to the private sector (either from borrowing countries or official creditors) about progress on these debt treatments remains limited, with little clarity on process and timelines. Along with greater engagement at an earlier stage, greater transparency on debt stock, creditor base and key parameters of the debt relief in the DSA could facilitate private sector participation in Common Framework negotiations:

    - A committee of **Zambia's** official creditors, co-chaired by China and France and vice-chaired by South Africa, has provided financing assurances to the IMF and committed to negotiate terms of a restructuring of the government's debt. However, terms have not yet been agreed with either official or private creditors, who hold much of the country's external debt stock. Discussions on terms only began after the publication of the IMF's debt sustainability analysis on Zambia in early September.[18]

    - In **Ethiopia,** the official creditor committee has met four times, but progress on debt restructuring has been limited given the ongoing Tigray conflict.

    - In the case of **Chad**, the IMF has noted recent progress in discussions with the government, and, though there is no debt agreement yet among creditors, also with the commercial lenders that funded an oil prepayment facility to the state oil company, discussions are ongoing in order to reach an agreement. Moreover, the economic backdrop has changed significantly in recent

[16] https://www.reuters.com/business/energy/ukraines-naftogaz-wins-approval-freeze-debt-payments-2024-notes-2022-08-31/
[17] https://www.reuters.com/world/europe/exclusive-ukraine-calls-bespoke-imf-world-bank-programmes-2022-09-20/
[18] https://www.imf.org/en/Publications/CR/Issues/2022/09/06/Zambia-Request-for-an-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-Staff-523196

months, with the sharp rise in oil prices requiring a reassessment of Chad's proposed debt treatment.

- **In Suriname,** despite some further engagement between the bondholders' creditor committee and the government, there has been limited progress in debt restructuring negotiations so far and no narrowing of the gap between the two sides. The IMF program approved by the Executive Board in December 2021 is now off track,[19] partly due to food and energy price pressures but also due to domestic economic issues.20 One of the chief points of uncertainty in the negotiations relates to Suriname's offshore oil and gas discoveries, which should begin generating revenues in coming years. In June 2022, Paris Club creditors and Suriname reached to an agreement to restructure almost $100 million of external debt.

- In **Lebanon,** efforts on debt restructuring to date have been limited as a consequence of ongoing political deadlock in the country. The current caretaker government has little authority, with the power-sharing agreement among the president, prime minister, and head of parliament proving unable to deliver progress on the needed debt workout. With the current president's term expiring at end-October, it is unclear whether the upcoming presidential election will successfully deliver a president with sufficient legitimacy to allow reforms to proceed.

- Given U.S. sanctions, near-term prospects for debt restructuring in **Venezuela** remain unlikely.

[19] https://www.imf.org/en/News/Articles/2021/12/22/pr21400-imf-executive-board-approves-extended-arrangement-under-the-extended-fund-facility-suriname

[20] https://www.imf.org/en/News/Articles/2022/09/16/tr091522-com-press-briefing

Table 1: Sovereign Bond Defaults

Country	Default Date	Currency	Status
Russia	Jan-99	FC	resolved
Pakistan	Jan-99	FC	resolved
Indonesia	Mar-99	FC	resolved
Dominican Republic	Apr-99	LC	resolved
Suriname	Jan-00	LC	resolved
Indonesia	Apr-00	FC	resolved
Argentina	Nov-01	FC, LC	resolved
Indonesia	Apr-02	FC	resolved
Paraguay	Feb-03	FC	resolved
Uruguay	May-03	FC	resolved
Cameroon	Sep-04	LC	resolved
Grenada	Dec-04	FC	resolved
Venezuela	Jan-05	FC	resolved
Grenada	Jan-05	LC	resolved
Dominican Republic	Feb-05	FC	resolved
Belize	Dec-06	FC	resolved
Grenada	Dec-06	LC	resolved
Seychelles	Aug-08	FC	resolved
Ecuador	Dec-08	FC, LC	resolved
Jamaica	Jan-10	FC, LC	resolved
Greece	Feb-12	FC, LC	resolved
Belize	Aug-12	FC	resolved
Grenada	Oct-12	FC	resolved
Greece	Dec-12	FC, LC	resolved
Jamaica	Feb-13	FC, LC	resolved
Grenada	Mar-13	FC, LC	resolved
Cyprus	Jun-13	FC, LC	resolved
Argentina	Jul-14	FC	resolved
Ukraine	Sep-15	FC	resolved
Mozambique	Apr-16	FC	resolved
Republic of Congo	Aug-16	FC	resolved
Mozambique	Jan-17	FC	resolved
El Salvador	Apr-17	FC, LC	resolved
Belize	May-17	FC	resolved
Republic of Congo	Aug-17	FC	resolved
El Salvador	Oct-17	FC, LC	resolved
Venezuela	Nov-17	FC	**ongoing**
Barbados	Jun-18	FC	resolved
Barbados	Aug-18	LC	resolved
Argentina	Aug-19	FC, LC	resolved
Argentina	Dec-19	FC	resolved
Argentina	Jan-20 - Sept. 20	LC	resolved
Lebanon	Mar-20 - Nov-20	FC	**ongoing**
Argentina	Apr-20	FC	resolved
Ecuador	Apr-20	FC, LC	resolved
Suriname	Jul-20	FC	resolved
Belize	Aug-20	FC	resolved
Zambia	Oct-20 -Nov-20	FC	**ongoing**
Suriname	Nov-20	FC	resolved

Table 1: Sovereign Bond Defaults (continued)

Country	Default Date	Currency	Status
Zambia	Mar-21	FC	**ongoing**
Suriname	Mar-21	LC	**ongoing**
Belize	May-21	FC	resolved
Mali	Mar-22	LC	resolved
Russia	Mar. 22 - Jun-22	FC. LC	**ongoing**
Sri Lanka	May-22	FC	**ongoing**
Belarus	Jun-22	FC	**ongoing**
Ukraine	Aug-22	FC	resolved

Source: S&P, Moody's, IMF, IIF

Box 2. Principles for Stable Capital Flows and Fair Debt Restructuring, 2022 Update

In the absence of a widely-acknowledged international mechanism for sovereign debt workouts involving private creditors, market-based approaches have a vital role to play. In this regard, the Principles for Stable Capital Flows and Fair Debt Restructuring are a key element of the international sovereign debt architecture. Since their endorsement by the G20 in 2004, the Principles have proven to be an effective framework for sovereign debt crisis prevention and crisis resolution that is widely referenced by debtors, official and private creditors, international financial institutions, and other stakeholders. There are four building blocks of the Principles. The *Principles* aim to foster:

1. Enhanced debt transparency and the timely flow of information between creditors and debtors to promote and maintain sustained market access
2. Close debtor-creditor dialogue and cooperation, mainly to avoid debt restructurings

In cases where debt restructuring becomes inevitable, the *Principles* aim to facilitate a voluntary, predictable, and orderly debt restructuring process based on:

3. Good faith actions and
4. Fair treatment of "all" stakeholders

Since May 2021, the members of the Principles Consultative Group, a select group of finance and central bank officials, as well as senior representatives of the private finance sector, have been updating the *Principles* in the context of market developments related to the COVID-19 pandemic and also to changes in the sovereign debt landscape over the past decade, including the rise of ESG investment.

The updates focus on three broad areas:

- **Lessons learned from recent debt restructurings**: These highlight the best market-based practices for sovereign debt crisis resolution.
- **Enhanced transparency and information sharing between creditors and sovereign borrowers:** Obtaining timely and comprehensive information on public debt remains a challenge, and insufficient transparency negatively affects credit ratings, borrowing costs, and cross-border capital flows. The updated *Principles* reflect the IIF's *Voluntary Principles for Debt Transparency* and their implementation through the IIF-OECD Debt Transparency Initiative's data repository. In the event of restructuring, early and simultaneous engagement by debtor countries with all investors, as opposed to sequential information-sharing, is crucial, including when debt service relief is sought under the Common Framework for Debt Treatments beyond the DSSI.
- **Climate and ESG considerations in sovereign debt markets and their role in crisis prevention and sustained market access**: The *Principles* seek to acknowledge the new reality that ESG now plays an important role in sovereign debt markets, with creditors and investors taking ESG factors into consideration for investment decisions. Investors are often now asking for ESG factors to be included explicitly in investor relations programs, and regular dialogue and data dissemination should thus include ESG considerations.

II. Investor Relations and Data Transparency

The IIF Best Practices for Investor Relations are voluntary guidelines for country authorities seeking to enhance their investor relations and data dissemination practices, in conjunction with the Principles for Stable Capital Flows and Fair Debt Restructuring. The IIF regularly reviews the adherence of emerging market borrowers to these best practices and discloses key findings in the Implementation Report of the Principles that the Principles Consultative Group publishes annually. In line with recent revisions of the Principles, the PCG updated IIF Best Practices for Investor Relations and its assessment methodology of countries' investor relations practices (A detailed description of the evaluation criteria is provided in Annex III). These updates focus on various topics, including:

- Promoting broader debt stock coverage in sovereign data dissemination practices, including the liabilities of subnational governments and state-owned enterprises
- Strengthening information sharing on the creditor and currency composition of public debt
- Enhancing timely flow of information on borrowers' debt service profile by creditor and instrument
- Encouraging debtor countries to disseminate information on environmental impacts of budgetary and fiscal policies
- Encouraging countries to maintain a publicly accessible database of their domestic and external bond prospectuses, and publicly disclose their loan contracts with all external creditors
- Building awareness and support among sovereign debtors for the IIF Voluntary Principles for Debt Transparency

The 2022 IIF IR assessment covers 37 emerging markets and developing from different geographical regions, including sub-Saharan Africa and is based on three sets of scores:[21]

1) **IR Country Score**: a headline score to assess overall IR practices across 23 criteria. The full scoring of each country is shown in Table 2 (with a maximum score of 50).

2) **Debt Transparency Score**: This a subset of the headline IR country score and aims to assess sovereign borrowers' data and policy dissemination practices (with a maximum score of 13). The IIF's IR assessment of data transparency considers the extent to which countries subscribe to the IMF's Special Data Dissemination Standards (SDDS), the effective data transparency of key elements, enhanced transparency practices, and the user-friendliness of the format of macroeconomic and ESG data. These categories encompass detailed breakdowns of government operations, debt, and debt service, and include creditor and currency composition requirements. Debt and debt service coverage includes central government and external debt, and also extends to publicly-guaranteed debt, local and state government debt, state-owned enterprises' debt, contingent liabilities and other categories related to transaction-level data.

3) **ESG Data and Policy Dissemination Score**: This is a subset of the headline IR country score to assess sovereign borrowers' ESG data and policy dissemination practices (with a maximum score of 4). The IIF's IR assessment of ESG data and policy dissemination practices considers the

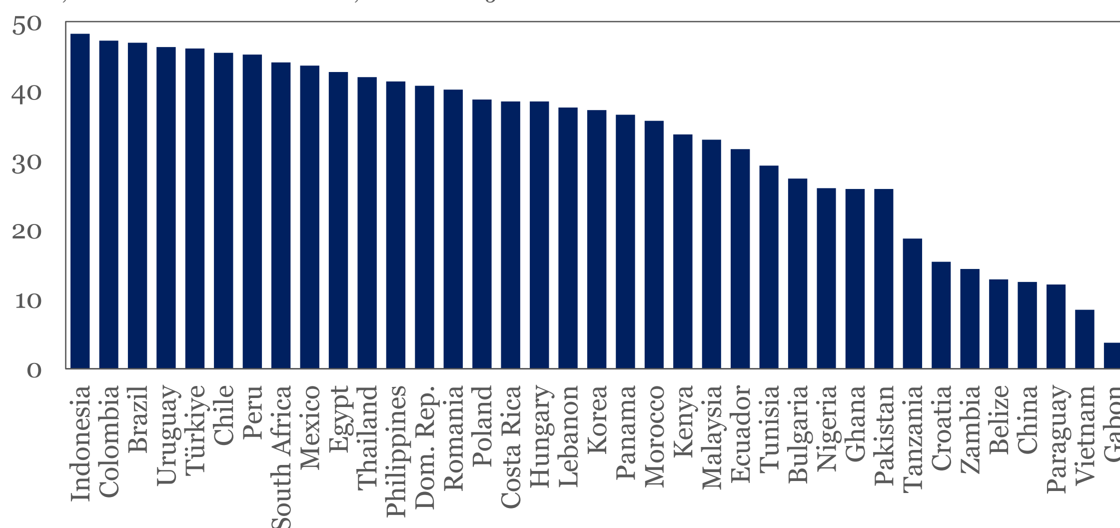
[21] Russia and Ukraine have been temporarily excluded from the analysis.

availability of ESG data, including information on the environmental and social dimensions of budgetary and fiscal policies and on ESG debt issuances and supporting documents. The assessment also covers ESG policy, with respect to the disclosure of climate and SDG commitments and targets, of progress towards these commitments, and of relevant forecasts and scenarios.

Key takeaways from 2022 assessment include:

- Since 2005, the number of countries with IRPs has increased from 8 to 28 (Table 3).[22]
- Out of the 37 countries in the sample, thirteen responded to the Investor Relations survey.
- No country received a maximum IR score of 50, with the highest scores received by Indonesia (48), Colombia (47), Brazil (47), and Uruguay (46) (Chart 6). This stands in contrast to the 2020 assessment in which four countries scored the maximum of 42: Indonesia, Mexico, the Russian Federation, and Turkey (Chart 6).
- Overall, 19 out of the 37 countries scored in the top quartile (37.5-50) of the IR assessment and four countries scored in the lowest quartile (0-12.5).
- This year, Kenya bears the distinction of most-improved performance (+18), followed closely by Ecuador (+17), Tanzania (+11), and Egypt (+10).[23] Of note, **Kenya** and **Ecuador** owe these impressive improvements to their scores thanks to having started their investor relations program in 2021, partly in coordination with the U.S. Department of the Treasury's Office of Technical Assistance. **Tanzania** derived its progress from the IR staff, website, dissemination of data categories. **Egypt's** improved score also reflects better performance in these areas, including strong performance in ESG disclosure.

Chart 6: Investor Relation Country Scores
index, 2022 Investor Relations score, maximum = 50



Source: IIF Investor Relations Survey

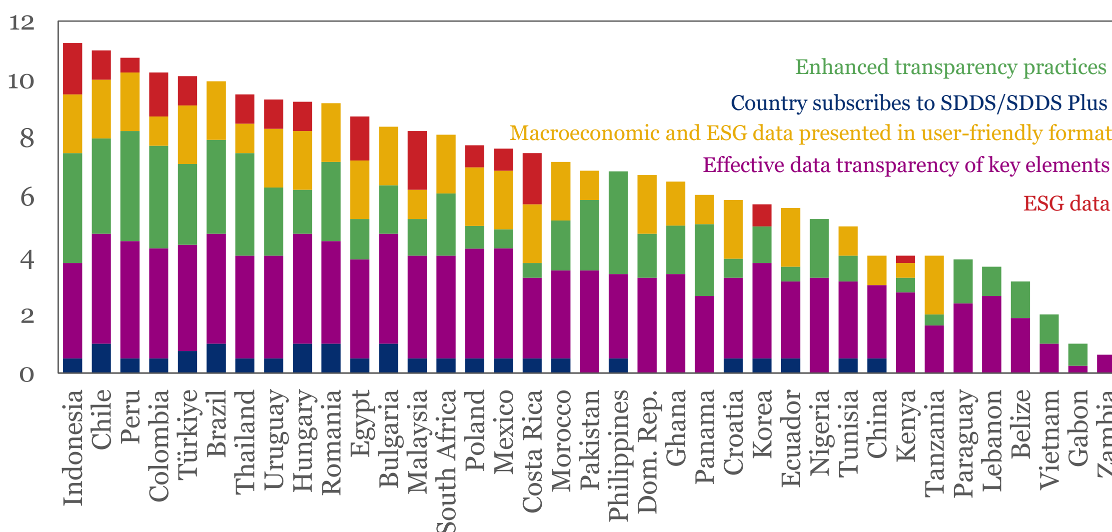
[22] This includes Russia and Ukraine, which both have active IR offices, although they are excluded from the 2022 scoring.
[23] We exclude Paraguay from this comparison, as it is the country's first year of inclusion in the sample.

- Over two-thirds of countries in our sample disseminate ESG data and policy information. In 2022, Chile became the first sovereign in the world to place a sustainability-linked sovereign bond, and Uruguay introduced its own sovereign sustainability-linked bond framework this year.[24] Brazil, Peru, and several other emerging market governments are also considering similar issuance. This follows the issuance of a sovereign SDG bond by Mexico in 2020, a sovereign green bond by Egypt in 2020, and a dollar-denominated green Eurobond by South Korea in 2019. Colombia launched its Sovereign Green Bond Framework in 2021,[25] which comes in addition to previously-established green or sustainability bond/sukuk frameworks in Chile, Hungary, Indonesia, Mexico, Malaysia, Poland, and Thailand – see IIF Sustainable Debt Monitor

- Out of a total possible score of 13, the sample countries average a **debt transparency score** of 7, with the highest scores standing at approximately 11, achieved by Indonesia, Chile, and Peru (Chart 7). There is significant room for improvement in the sample on the dissemination of ESG data,[26] for which 22 countries scored a zero. Nine and thirteen countries also received no credit for user-friendliness of the format of data and for SDDS subscription, respectively.

Chart 7: Debt Transparency Score

index, maximum = 13



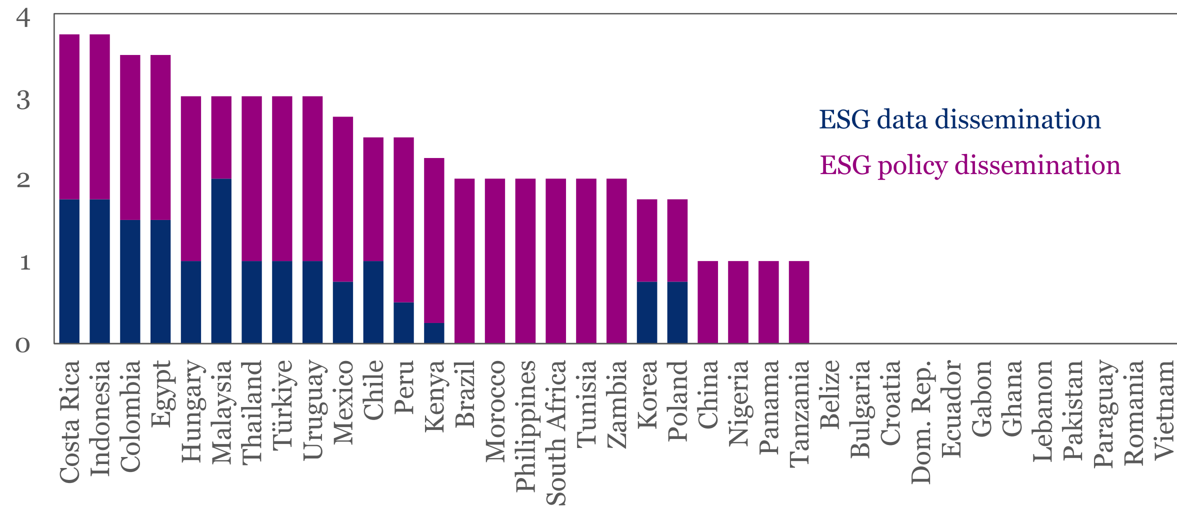
Source: IIF

- Out of a maximum of 4, the sample countries average an **ESG Data and Policy Dissemination score** of nearly 2, with the highest scores achieved by Costa Rica and Indonesia, at nearly 4, followed by Colombia and Egypt, which also round up to 4 (Chart 8). Twelve countries received a score of zero, reflecting the significant room for improvement on sovereign ESG disclosure in the sample. At an average score of below 1, disclosure of ESG data lagged that of ESG policy, which was above 1.

[24] http://sslburuguay.mef.gub.uy/30687/20/areas/uruguays-sovereign-sustainability-linked-bonds-sslb.html
[25] https://www.worldbank.org/en/news/feature/2022/08/31/colombia-leading-the-path-to-sustainability-in-latin-america
[26] In our separate assessments of debt transparency and ESG disclosure, we include "14a. ESG data" as a component in both scores. However, ESG data is counted only once for the headline Investor Relations score, hence there is no double-counting in the overall assessment.

Chart 8: ESG Disclosure Score

index, maximum = 4



Source: IIF

TABLE 2 - Overall Assessment of Investor Relations and Data Transparency Practices (Prioritized)

Investor Relations Practices Criteria		Investor Relations Office/Staff		Investor Relations Website				Dissemination of Macroeconomic Data			
		1. Presence of Institutionalized IR Activities	2. IR Staff Identifiable and Reachable through Website(s)	3. Dedicated IR Website Available in English	4. Central Bank and Government Agency Website(s) Available in English	5. Reciprocal Links to Central Bank, Ministry of Finance, and Other Government Agency Websites	6. Investors Able to Register for Website Subscription	7. Country Subscribes to SDDS/SDDS Plus	8. Effective Data Transparency of Key Elements	9. Enhanced Transparency Practices	10. Macro-economic and ESG Data Presented in User-Friendly Format
	Weight	**2**	**3**	**3**	**3**	**1**	**1**	**1**	**4**	**4**	**2**
Country	**Score**										
Belize	**13**	0	0	0	3	0.75	1	0	1.875	1.25	0
Brazil (Treasury)	**47**	2	3	3	3	1	1	1	3.75	3.2	2
Bulgaria	**27**	0	3	0	3	0.5	1	1	3.75	1.65	2
Chile	**46**	2	3	3	3	0.5	1	1	3.75	3.25	2
China	**13**	0	0	0	3	0.5	0	0.5	2.5	0	1
Colombia	**47**	2	3	3	3	1	1	0.5	3.75	3.5	1
Costa Rica	**39**	2	3	1.5	1	1	0.5	0.5	2.75	0.5	2
Croatia	**15**	0	1	3	3	0	0.5	0.5	2.75	0.65	2
Dom. Rep.	**41**	2	3	3	3	1	1	0	3.25	1.5	2
Ecuador	**32**	1	2	1	1	0.5	0.5	0.5	2.625	0.5	2
Egypt	**43**	2	3	3	3	1	0	0.5	3.375	1.375	2
Gabon	**4**	0	0	0	0	0.75	0	0	0.25	0.75	0
Ghana	**26**	2	2	1.5	3	0.875	0	0	3.375	1.65	1.5
Hungary	**39**	0	1	3	3	0.75	0	1	3.75	1.5	2
Indonesia	**48**	2	3	3	3	1	1	0.5	3.25	3.75	2
Kenya	**34**	2	3	3	3	0.75	1	0	2.75	0.5	0.5
Korea, South	**37**	2	2	3	3	0.5	1	0.5	3.25	1.25	0
Lebanon	**38**	2	3	3	3	1	1	0	2.625	1	0
Malaysia	**33**	0	3	0	3	0.75	1	0.5	3.5	1.25	1
Mexico	**44**	2	3	3	3	1	1	0.5	3.75	0.65	2
Morocco	**36**	2	3	1.5	2	1	1	0.5	3	1.7	2
Nigeria	**26**	2	2	3	3	0.75	1	0	3.25	2	0
Pakistan	**26**	0	0	0	3	1	1	0	3.5	2.4	1
Panama	**37**	2	3	3	3	1	1	0	2.625	2.45	1
Paraguay	**12**	0	0	0	0	0.25	0	0	2.375	1.5	0
Peru	**45**	2	3	1.5	3	1	1	0.5	4	3.75	2
Philippines	**41**	2	3	1.5	3	1	1	0.5	2.875	3.5	0
Poland	**39**	2	2	3	2.5	0.5	0	0.5	3.74	0.775	2
Romania	**40**	2	2	3	3	1	0	1	3.5	2.7	2
South Africa	**44**	2	3	3	3	1	0	0.5	3.5	2.125	2
Tanzania	**19**	0	2	3	3	0.75	0	0	1.625	0.375	2
Thailand	**42**	2	3	1.5	3	0	0	0.5	3.5	3.5	1
Tunisia	**29**	1	1	0	2	0.75	0.5	0.5	2.625	0.875	1
Turkey	**46**	2	2	3	3	1	1	0.75	3.625	2.75	2
Uruguay	**46**	2	3	3	3	1	1	0.5	3.5	2.325	2
Vietnam	**9**	0	0	0	3	0.5	0	0	1	1	0
Zambia	**14**	2	1	3	3	0.5	0.25	0	0.625	0	0

TABLE 2 - Overall Assessment of Investor Relations and Data Transparency Practices (Prioritized) – Continued

Dissemination of Macroeconomic Policy Information			Dissemination of ESG Information	Investor Relations Contact List	Feedback and Communication Channels							Regular Self-Assessment	Total
11. Historic Policy Information Available	12. Forward-Looking Policy Information Available	13. Structural (Legal, Regulatory) Information Available	14. ESG Data and Policy Information Available	15. Active Investor Contact List	16. Web-Based Communication with Investors	17. Bilateral Meetings with Investors	18. Non-Deal Roadshow(s)	19. Investor Conference Call(s)	20. Investor Feedback Reflected in Policy Decisions, Per Country	21. Senior Policymakers Accessible to Investors	22. Archives of Investor Presentations and Conference Call Materials Available on Website(s)	23. Regular Self-Assessment of Investor Relations Activities	Maximum Weight
2	3	2	4	3	2	1	1	1	3	2	1	1	50
													Country
1	2	2	0	0	0	0	0	0	0	0	0	0	Belize
2	3	2	2	3	2	1	1	1	3	2	1	1	Brazil (Treasury)
1	2	2	0	1.5	2	0	0	0	3	0	0	0	Bulgaria
2	3	2	2.5	3	2	1	1	0	3	2	0.5	1	Chile
1	0	2	1	0	0	1	0	0	0	0	0	0	China
2	3	2	3.5	3	2	1	1	1	3	2	1	1	Colombia
2	1.5	2	3.75	3	2	0.5	1	1	3	2	1	1	Costa Rica
1	0	0	0	0	0	1	0	0	0	0	0	0	Croatia
2	3	2	0	3	2	1	1	1	2	2	1	1	Dom. Rep.
2	3	2	0	3	2	1	1	1	1.5	2	1	0.5	Ecuador
1	3	2	3.5	3	2	1	1	1	3	2	0	1	Egypt
0	0	2	0	0	0	0	0	0	0	0	0	0	Gabon
2	2	2	0	0	2	0	0	1	0	0	1	0	Ghana
2	3	2	3	1.5	2	1	1	1	3	2	1	0	Hungary
2	3	2	3.75	3	2	1	1	1	3	2	1	1	Indonesia
2	3	2	2.25	0	2	1	0	0	3	2	0	0	Kenya
2	3	2	1.75	3	2	1	1	1	3	0	0	1	Korea, South
2	3	2	0	3	2	1	1	1	3	2	0	1	Lebanon
0	2	2	3	3	2	1	1	0	3	2	0	0	Malaysia
2	3	2	2.75	3	2	1	1	1	2	2	1	1	Mexico
2	3	2	2	3	2	1	0	1	1	0	0	1	Morocco
2	3	2	1	0	0	0	0	0	0	0	0	1	Nigeria
2	3	2	0	0	0	1	1	0	3	2	0	0	Pakistan
2	0	2	1	3	2	1	0	1	2	2	1	0.5	Panama
1	1	2	0	0	1	0	1	0	0	2	0	0	Paraguay
2	3	2	2.5	3	2	1	1	0	3	2	1	1	Peru
2	3	2	2	3	2	1	1	1	3	2	0	1	Philippines
2	3	2	1.75	3	2	1	1	1	3	2	0	0	Poland
2	3	0	0	3	2	1	1	1	3	2	1	1	Romania
2	3	2	2	3	2	1	1	1	3	2	1	1	South Africa
2	1	2	1	0	0	0	0	0	0	0	0	0	Tanzania
2	3	2	3	3	2	1	1	1	3	2	0	1	Thailand
1	1	2	2	3	2	1	1	0	3	2	0	1	Tunisia
2	3	2	3	3	2	1	1	1	3	2	1	1	Turkey
2	3	2	3	3	2	1	1	1	3	2	1	1	Uruguay
1	0	2	0	0	0	0	0	0	0	0	0	0	Vietnam
1	1	0	2	0	0	0	0	0	0	0	0	0	Zambia

Table 3
Active Investor Relations Programs

Country	IR Program Launching Year	Location
Tunisia	1994	Central Bank of Tunisia
Mexico	1995	Ministry of Finance and Public Credit
Brazil	April 1999 2001	Central Bank of Brazil The National Treasury
Nigeria	2000	Debt Management Office
The Philippines	July 2001	Central Bank of the Republic of the Philippines
Thailand	2002	Public Debt Management Office
Turkey	August 2005	Ministry of Treasury and Finance
Indonesia	February 2006	Bank Indonesia
Peru	April 2006	Ministry of Economy and Finance
Morocco	December 2007	Ministry of Economy and Finance
Colombia	2008 / Upgraded 2010	Directorate of Public Credit, Ministry of Finance and Public Credit
Chile	Upgraded 2009	Ministry of Finance
Poland	February 2009	Ministry of Finance
The Dominican Republic	September 2009	Public Credit Directory, Ministry of Finance
Panama	April 2011	Ministry of Economy and Finance
Uruguay	April 2011	Public Credit Directory, Ministry of Economy and Finance
South Africa	June 2011	National Treasury
Egypt	2016	Central Bank of Egypt
Russian Federation	2016	Central Bank of Russia
Ukraine	2018	Ministry of Finance
Costa Rica	2017	Ministry of Finance
Ghana	N/A	Ministry of Finance
Lebanon	N/A	Ministry of Finance
Romania	2016	Ministry of Finance
South Korea	N/A	Ministry of Economy and Finance
Zambia	2020	Ministry of Finance
Kenya	2021	National Treasury
Ecuador	2021	Ministry of Economy and Finance

Box 3. IIF Voluntary Principles for Debt Transparency

The IIF Voluntary Principles for Debt Transparency are designed to enhance transparency practices in cross-border commercial bank lending to countries that are eligible for the Poverty Reduction and Growth Trust (PRGT). The G20 supports the implementation of the Principles, and the OECD was chosen to operationalize them. To help accelerate the data collection process, the OECD Secretariat created an Advisory Board of Debt Transparency to bring together stakeholders across public and private sectors.

These Principles focus on lending transactions denominated in foreign currency or governed by foreign law. This includes bilateral and syndicated loans, guarantees, asset-backed loans and repos. While bonds that are subject to public disclosure are excluded from the Principles, the Advisory Board members strongly encourage the collection of data on foreign currency or foreign-law government bonds at issue.

The Principles cover lending activities to sovereigns, sub-sovereigns and public sector entities in PRGT-eligible countries. This includes lending to (non-financial) state-owned enterprises. Export Credit Agency supported loans are excluded from the Principles.

The Principles do not aim to collect data on debt deals prior to the launch of the OECD debt transparency data portal. They only focus on new deals signed since the official launch of the portal in January 2022. All commercial banks are invited to participate in the initiative and submit transaction-level information on bilateral lending activities to the data repository managed by the OECD. Participating banks are expected to report the relevant transaction-level information to the repository within a reasonable time frame – no earlier than 60 days and no later than 120 days after the date on which funds first move in connection with the financial transaction. The relevant transaction-level information could include the items listed in the Information Matrix Template that was developed by the IIF and the OECD.

Full implementation of the Voluntary Principles for Debt Transparency depends on private creditors active data submission to the OECD repository and will require the full support of debtor countries and ongoing advisory support from IFIs including the IMF and World Bank To date, reporting to the OECD data repository has been limited due to the narrow scope of countries in question, limited deal flow since the repository's launch, and execution challenges (including in some cases a reluctance by borrowing countries to have lending terms and conditions disclosed, e.g. because of confidentiality clauses). To facilitate more effective collection of lending data, the IIF released an implementation note and template language to introduce carve-outs from confidentiality clauses in January 2022. The group has also created a template letter that banks will be able to send to their sovereign clients to inform them that their lenders will be participating in this debt transparency initiative, and to highlight confidentiality carve-outs.

III. UK Treasury-convened Private Sector Working Group

Established in 2021, the UK Treasury-convened Private Sector Debt Working Group (UK-PSWG)— with the support of IMF staff—has two workstreams. The first is on proposed majority lender voting provisions (MVPs) enabling changes to payment terms in certain circumstances by a qualified majority rather than unanimous consent in sovereign loans, which are somewhat akin to single series collective action clauses in a bond. The second workstream focuses on climate-resilient debt clauses in sovereign debt instruments. At the request of the UK Treasury, the IIF has been supporting the work of both subgroups and continues to facilitate dialogue on these topics.

1. Subgroup on Majority Voting Provisions

a. **Development of specimen clauses for consideration on a voluntary basis:** The UK Treasury, supported by the IMF, has developed specimen clauses which can be included in any medium to long-term sovereign loan agreement (governed by foreign law) from any commercial credit provider, including non-financial firms and others not subject to supervision. These will be published and posted on the PCG portal located on the IIF website, and on the websites of other relevant industry bodies, together with a related Guidance and Explanatory Note as a reference point for sovereign debtors and lenders to consider when entering into a sovereign loan. The intention is that such clauses will only apply on loan-by-loan basis and be forward-looking; takeup is voluntary. Specimen clauses can be tailored on a case-by-case basis as appropriate to the specific loan while providing a reference point to maintain a level playing field.

b. **Role of the IIF:** To help articulate private sector positions on MVPs, the IIF has facilitated discussions of a small group of banks and advisors that have participated in the UK-PSWG. Given the specificities of individual loan arrangements, the participation of the IIF and private sector firms in the UK-PSWG cannot be taken as endorsement of the Guidance and Explanatory Note and Specimen Clauses.

c. **Private sector positions:** The private sector positions, which draw on the updated *Principles for Stable Capital Flows and Fair Debt Restructuring*) are set out in full in Box 4 below.

2. Subgroup on Climate-resilient Debt Clauses

a. **Building financial resilience in debt instruments**: Discussions of the UK-PSWG highlighted interest in a specimen term sheet being developed as a useful reference point for countries and their credit providers to discuss when a country wishes to build some financial resilience in its debt instruments in the face of climate or pandemic trigger events with a significant negative impact on the sovereign's economic circumstances, allowing the country breathing space to address liquidity challenges. This work is continuing.

b. **Support for promotion of ESG considerations; importance of a case-by-case approach**: Private creditors have expressed support for efforts that will help to promote ESG considerations in sovereign debt markets; in this context, debt instruments with Climate Resilient Debt Clauses (CRDCs) would provide temporary liquidity relief in the wake of severe

climate crises or other natural disasters, helping reduce the risk of a more costly debt restructuring. However, private creditors highlighted that drafting of CRDCs should be on a case-by-case basis, given the technical challenges in setting thresholds for trigger events.

c. **Universality of treatment in debt restructuring**: private sector representatives have emphasized that no seniority should be granted to instruments with CRDCs, which will rank pari passu with other debt obligations. This enjoinder reflects the recently updated *Principles for Stable Capital Flows and Fair Debt Restructuring*, which stress that "…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."

d. **Concerns about cost of borrowing; need for MDB support**: Some participants suggested these clauses could usefully include alternative payment options that would allow sovereign borrowers to make debt repayments in local currency under certain circumstances. Some private sector representatives expressed concern that the use of such clauses could increase the cost of funding and might reduce the liquidity of the underlying debt instruments.[27] Others suggested that the impact on the cost of funding could be negligible—in particular due to the lower risk of default following a severe climate shock or natural disaster, as a result of the breathing space provided. And finally, private creditors underscored the importance of support from the multilateral development banks for this initiative—debt deferral from MDBs would be particularly useful for crisis-hit countries, as multilateral institutions are the largest credit provider for the most climate-vulnerable low and lower-middle income countries.

[27] https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2020/11/13/The-Role-of-State-Contingent-Debt-Instruments-in-Sovereign-Debt-Restructurings-49732

Box 4. Private Sector Positions with Respect to the Development of Majority Voting Provisions

The following private sector perspectives on Majority Voting Provisions (MVPs) reflect IIF staff discussions with a small group of IIF member banks and their advisors (the subgroup) who have been engaged in the UK Treasury-convened Private Sector Debt Working Group (UK-PSWG). These discussions have focused on the specific context of lending to vulnerable low-income sovereign borrowers—i.e., as referenced in the scope of the DSSI and Common Framework. These inputs were relayed to the UK-PSWG and informed the Guidance Note, Explanatory Note and Specimen Clauses, which in final form reflect a broad set of stakeholder views. The Guidance Note, Explanatory Note and Specimen Clauses are the result of the discussions within the UK-PSWG but are not, as such, endorsed by the subgroup members for use in any specific case. Parties contemplating the use of the MVPs in the context of a specific transaction will need to evaluate their use on a case by case basis.

As backdrop, the subgroup emphasizes that in current market practice, corporate loan arrangements already offer a well-established toolkit to help borrowers to change the terms on their existing loans in certain circumstances. These tools include provisions such as "snooze you lose" and "yank the bank," which offer significant flexibility and can prevent a small group of lenders from blocking useful modifications.

As the Guidance Note recognizes, promoting the integration of these tools in sovereign loan arrangements could enhance the ability of lenders to support borrowing countries in coping with situations before financial strains take hold. This in turn could increase the ability of sovereign debtors to pre-emptively restructure their obligations in a consensual manner. The flexibility offered by these tools may also reduce the need for the application of MVPs. As and when required, the subgroup agrees that the adoption of MVPs in loan documentation would further increase the flexibility of loan contracts.[28] However, for MVPs to function properly in such a situation, requests for modification of terms should be made with full transparency and intercreditor equity.[29]

The subgroup also stresses that in the context of sovereign debt restructurings, bank loans have specific features which distinguish them in a material and relevant way from bonds (which may require some tailoring of specimen template terms on a case-by-case basis). First, bank loans offer sovereign debtors greater control over the composition of their lenders. Second, the conditions to transfer these claims in the secondary markets may be much stricter and more complex than for bonds.

In support of an orderly and efficient sovereign debt resolution process, the subgroup's positions as relayed to the UK Treasury-convened PSWG are summarized below.

[28] Participants suggested that when MVPs are included in loan documentation, protections for minority lenders should be contractually embedded.

[29] Of note, these private sector positions do not consider the potential implications of MVPs for privately insured loans. Such private insurance has been an important support to the provision of significant private capital flows to a number of emerging and developing economies. Some private sector banks in the IIF-convened subgroup expressed concern that if loans with MVPs were to become effectively uninsurable, this could have a notable adverse impact on the provision of much-needed private capital to EMDEs. On a case-by-case basis, lenders should consider the implications of MVPs on insurance arrangements.

1. **Scope**: Majority Voting Provisions (MVPs) should apply to all medium- to long-term sovereign loans from any credit provider, including non-financial firms and others not subject to supervision (in line with the updated *Principles for Stable Capital Flows and Fair Debt Restructuring*)[30]. A commitment from the sovereign borrower is thus expected to ensure that MVPs are introduced in all new relevant loans. The inclusion of MVPs would also be in the interest of borrowing countries, the IMF and official creditors, as well as supporting a more level playing field among creditors.

2. **Determining a trigger for application of MVPs**: The application of MVPs to loans should be carefully considered and limited to situations of clear and significant financial strain where the debtor's creditors as a whole are expected to participate. Such situations could include pre-emptive/pre-payment default restructuring when a country's debt is deemed unsustainable by a credible public authority such as the IMF.

3. **Inter-creditor equity and transparency should be respected**: In situations of pressing debtor stress requiring creditor losses, MVPs should apply where the requested restructuring satisfies the requirements of transparency and intercreditor equity i.e., when the application of MVPs is predicated on comparable efforts vis-à-vis all relevant creditors. See also the 2022 Update of the *Principles for Stable Capital Flows and Fair Debt Restructuring*, which stresses the importance of fair treatment of all creditors and calls on debtor countries to improve their debt transparency practices.

4. **Fundamental differences between bonds and loans**: Approaches to majority voting provisions should take into account core differences between loans and bonds. For example, commercial arrangements of non-bonded debt are more private, more diverse and less liquid in nature than publicly traded bonds. An important distinction between bank lending and bond finance is that the former is financed by a few, identifiable creditors, while bonds are held by a large number of anonymous and dispersed creditors. Unlike bonds, loans could benefit from clauses that provide flexibility for borrowers in approaching creditors to support restructuring of debt terms. Borrowers can be protected against risk of an unreasonable or unresponsive lender by clauses such as disenfranchisement of non-responsive lenders ("snooze you lose"), and the ability for holdout creditors to be prepaid without pro rata application ("yank the bank"), etc.). These differences should be carefully considered in detailed drafting of loan contracts with MVPs.

[30] MVPs are not expected to be included in certain categories of loans which are excluded from restructurings in line with general practice. This includes claims related to instruments with an original maturity of one year or less, certain disclosed international trade related facilities and interbank advances.

Box 5. IMF Review of Lending into Arrears Policies

In May 2022, the IMF's Executive Board completed a comprehensive review of the Fund's sovereign arrears policies,[31] in recognition of the evolving creditor landscape and the emergence of new official bilateral and International Financial Institution creditors and instruments. This review stems from the IMF's role in lending to its members during moments of sovereign stress, at a time when other creditors have incentives to exit, thus raising risks to the Fund in situations where the member country has not reached agreement on a needed debt restructuring with its current group of creditors. The IMF requires that a country's debt be sustainable on a forward-looking basis in order for the IMF to provide financing and therefore needs assurances from creditors that debt sustainability will be restored and any program will be fully financed, which act as safeguards to ensure full future repayment to the Fund.

As such, where debt is unsustainable ex-ante, the IMF encourages countries to come to an agreement with their creditors on how to resolve debts—which in some cases entails a debt restructuring—before approving financing for a member. Yet this approach raises the prospect that a creditor holdout could de facto prevent or delay the IMF from approving financing by refusing to participate in a needed debt restructuring, hence the existence of the Fund's Lending into Arrears policies that enable it to provide crisis financing in cases where a member country's debts remain unresolved. The IMF first established its Lending into Arrears to Private Creditors[32] (LIA) policy in 1989 and its Lending into Official Arrears[33] (LIOA) in 2015.

Lending into Arrears to Private Creditors

The 2022 updates to the IMF's LIA pertain to debt transparency, a new substantive requirement, and creditor committees. Regarding debt transparency, debtors are expected to share relevant information with creditors, including a comprehensive picture of the debt stock. Such information-sharing should at least be in aggregate terms if confidentiality clauses prevent granular disclosure, which could have a bearing on debt with such contractual provisions held by commercial lenders.[34] The Fund asserts that these changes are in line with expected disclosure in program documents under its Debt Limits Policy.[35] These new information-sharing expectations are also part of the IMF's new policy for lending in Pre-Emptive Restructuring cases (i.e. "Pre-Default Restructuring"), which codifies existing practice as policy. It also continues to include engagement of advisors, launching of consultations with creditors, and design of restructuring strategy as relevant considerations in determining whether a credible process for the restructuring is underway and whether such restructuring will likely deliver an outcome in line with the parameters of the Fund-supported program.

The new substantive expectation under the LIA policy is that any debt restructuring offer by the debtor member should be consistent with program parameters. This new condition has raised concerns among private creditors that it would incentivize borrowing countries to propose aggressive offers to its

[31] https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/05/18/Reviews-of-the-Fund-s-Sovereign-ARREARS-Policies-and-Perimeter-517997
[32] https://www.imf.org/external/pubs/ft/privcred/lending.pdf
[33] https://www.imf.org/en/News/Articles/2015/09/28/04/53/sopol120815a
[34] https://www.aiddata.org/publications/how-china-lends
[35] https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/25/Guidance-Note-On-Implementing-The-Debt-Limits-Policy-In-Fund-Supported-Programs-460445

debtholders during debt restructuring negotiations. The IMF notes that the prospects of generous offers are equally problematic as aggressive haircuts, as such generosity could work against the debt sustainability and financing assurances that the Fund would need to proceed with a program.

The IMF has sought to streamline aspects of borrower interactions with creditor committees, emphasizing that such engagement is encouraged where committee formation is timely and its membership is representative. Of note, this change eliminates the expectation that debtors engage with creditor committees under a formal negotiating framework and only where warranted by the complexity of the case. However, the IMF continues to expect debtors to engage with a representative committee or committees.

Lending into Official Bilateral Arrears

The IMF's LIOA policy remains unchanged since its inception in 2015, due to limited experience with its application given its relative recency. While the LIOA policy has generally worked well, the challenge for the IMF is that consent from an official bilateral creditor to a program does not imply assurance that the creditor will provide the needed debt relief/financing in line with program parameters.

With respect to its LIOA policy, in 2022 the IMF has refrained from making any amendments and limited itself to one restatement that confirms current practice. This pertains to cases where restoring debt sustainability requires official bilateral creditor participation and that, where the IMF determines such Official Sector Involvement (OSI) to be necessary, this determination will apply to future Fund arrangements. The purpose of this clarification is to disincentivize a "wait-and-see" attitude taking root among official bilateral creditors, whereby they might withhold debt relief as the international sovereign debt policy architecture continues to evolve. These future IMF arrangements include the G20 Common Framework for debt treatments beyond the DSSI, although it is not yet a new representative standing creditor forum for LIOA purposes.

International Financial Institutions and Multilateral Creditors

The proliferation of International Financial Institutions (IFIs) in recent decades has led the IMF to adopt a new approach on how to apply its arrears policies with respect to multilateral creditors, in order to avoid diluting the special treatment conferred. Prior to the IMF's revision of its arrears policies in 2022, IFIs would be subject to a Non-Toleration Policy (NTP), which requires a credible plan for arrears clearance within the period of the IMF-supported program. While this NTP will continue in cases where OSI is not necessary, the new policy sets out a list of five factors the IMF will consider to determine which IFIs can continue to benefit from the NTP where OSI is needed. Of these five factors, three were already pre-existing: global membership, past treatment by the Paris Club, and participation in the Heavily-Indebted Poor Country Initiative (HIPC). The two new criteria that the IMF Board will also evaluate are whether the IFI is a Regional Financing Arrangement and whether it is being excluded from the scope of debt restructuring by a representative standing forum of official bilateral creditors in the case at hand. For regional IFIs that the IMF judges should not benefit from the NTP after consideration of these factors, LIOA would apply in cases where OSI is determined to be necessary for ensuring a member's debt sustainability in the context of IMF program design and implementation.

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Director General, *World Trade Organization*
and Former Minister *of Finance, Nigeria*

ANNEX II. Principles Consultative Group

Ms. Claire Husson-Citanna
Portfolio Manager
Abu Dhabi Investment Authority

Mr. Yannis Manuelides
Partner
Allen & Overy LLP

Ms. Anne Milne
Managing Director and Head of the GEM Corporate Credit Research
Bank of America Merrill Lynch

Ms. Kawtar Ed-Dahmani
Managing Director, Emerging Market Debt
Barings Asset Management

Mr. Charles Blitzer
Principal
Blitzer Consulting

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Central Bank of the Russian Federation

Mr. Richard Cooper
Partner
Cleary, Gottlieb, Steen & Hamilton LLP

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Clifford Chance

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Debt Management Agency, Benin

Ms. Patience Oniha
Director General
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Fidelity Investments

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Guggenheim Securities LLC

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Head, International Development Unit
HM Treasury, United Kingdom

Ms. Masha Gloukhovski
Managing Director, Head of Sovereign Advisory
JP Morgan Chase

Ms. Faouzia Zaaboul
Director of the Treasury and External Finance
Ministry of Economy and Finance, Morocco

Mr. Patricio Sepulveda
Chief of Debt Office
Ministry of Finance, Chile

Mr. Hasan Hamdan
Director, Public Debt Directorate
Ministry of Finance, Lebanon

Mr. Samuel Danquah Arkhurst
Director, Treasury and Debt Management Division
Ministry of Finance and Economic Planning, Ghana

Mr. Dominique de Guerre
Senior Advisor
Moelis & Company LLC

Ms. Elena Duggar
Chair of Moody's Macroeconomic Board, Managing Director, Chief Credit Officer - Americas
Moody's Investors Service

Mr. Franck Viort
Managing Director, Head of Non-Bank Financial Institutions, Corporate Banking Divsion, EMEA
MUFG Bank, Ltd.

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Newstate Partners

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Société Générale

Dr. Jérôme Jean Haegeli
Managing Director, Head Investment Strategy Group Asset Management
Swiss Re Ltd.

Mr. Arend Kapteyn
Chief Economist
UBS AG

Mr. Christian Kopf
Managing Director
Union Investment Privatfonds GmbH

Mr. Matthew Turner
Director, Global Economics and Debt
U.S. Department of the Treasury

Mr. Matthew Graves
Sovereign Analyst
Western Asset Management Company

Mr. Ian Clark
Partner
White & Case

Mr. William Rhodes
First Vice Chairman Emeritus of the IIF Board
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William R. Rhodes Global Advisors, LLC

ANNEX III. Evaluation Criteria for Investor Relations Programs – 2022 Update

This section describes the 23 criteria used to assess Investor Relation (IR) practices (see Table A.1 below).

1. Presence of a formal IRP

A formal Investor Relations Program (IRP) is characterized by an Investor Relations Office (IRO), designated IR officers, and an IR website. The office may be an independent entity or a department within another financial agency, such as the Ministry of Finance (or Treasury), or Central Bank. Most IROs maintain a separate website; however, in some cases IRO's share a website with another government agency. In some cases, a country can have institutionalized IR activities without having a formal IRP. The country must have these functions built into the existing framework of the Central Bank, Ministry of Finance, or government agency responsible for debt management. There must be staff responsible for communication with investors who fulfill these duties and are recognized by investors as reliable and accessible.

2. IR staff identifiable and reachable through website(s)

One or more official websites must contain contact information of at least one individual identified as an IR staff member and available to receive investor questions or comments. The information should be clearly marked, and easy to access; and could be publicized through social media sides. The appropriate official may be either a designated IR officer or responsible for investor communications as one of his or her core duties. General information for webmasters or staff listings of those who are not responsible for IR functions does not meet this criterion.

3. Dedicated IR website available in both the local language and English

Countries should have a dedicated IR website which is regularly updated in both the local language and English.

4. Central bank, Ministry of Finance and/or Economy or Treasury, and Statistics Office websites available in English

The Central Bank, the Ministry of Finance and/or Economy (or Treasury), and Statistics Office websites must be in English.

5. Reciprocal links to IRO, Debt Management Office, Central Bank, and Ministry of Finance and/or Economy websites

Key websites include the IRO, Debt Management Office, Central Bank, and Ministry of Finance and/or Economy (or Treasury) websites. This criterion is not met if one agency website contains links, but others do not reciprocate. Additional links to government agencies such as national statistics office are recommended but not required to meet this criterion.

6. Investors able to register for website subscription

Investors can register on the IRO, Central Bank, or Ministry of Finance and/or Economy (or Treasury) website to subscribe to the website and receive relevant information such as data releases, policy information, or notices about roadshows or conference calls on a regular basis via email.

7. Country subscribes to SDDS/SDDS Plus

The country must subscribe to the IMF's SDDS, which was established by the IMF to guide members that have or that might seek access to international capital markets in the provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination: (1) data coverage, periodicity, and timeliness; (2) access by the public; (3) integrity of the disseminated data; and (4) quality of the disseminated data. For each dimension, the SDDS prescribes two to four monitorable elements—good practices that can be observed, or monitored, by the users of statistics. Countries are strongly encouraged to subscribe to the IMF's SDDS Plus.

8. Effective data transparency of key elements

Country authorities must disseminate key data related to central government operations, central government debt, and external debt in a timely manner, with the latest figures being no more than 12 months old. In terms of periodicity, data should be available at a quarterly frequency. This criterion is directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 4-point scale, with the maximum points awarded to countries with the highest levels of data transparency.

9. Enhanced transparency practices

Country authorities should disseminate granular data on debt beyond the central government's debt obligations. The IIF Best Practices for Investor Relations identify five areas of enhanced data dissemination practices directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 4-point scale, with the maximum points awarded to countries with the highest levels of data transparency:

(1) Debt coverage should include:

   a. Publicly guaranteed debt
   b. Local and state government debt
   c. State-owned Enterprises' (SOEs') debt
   d. Off-balance sheet liabilities, contingent public-sector liabilities related to public-private partnerships (PPPs), pension obligations, central bank repos and swap lines
   e. Collateralized/resource-backed debt
   f. Long-term trade credits

(2) Creditor and currency composition of public external debt by instrument, both for domestic and external debt.

(3) Debt service profile by creditor and instrument, both for domestic and external debt.

(4) Data on debt stock and debt service profile on a quarterly frequency

(5) A publicly accessible database of their domestic and external bond prospectuses, and transaction-level data on loan contracts with all external creditors.

10. Macroeconomic and ESG data presented in user-friendly format

To qualify for this criterion, data are presented in a format that can be easily manipulated in Microsoft Excel. Some data should be available in time series. Policy information is provided on one or more websites in a clear, succinct format that delivers the central points that authorities are seeking to convey. Countries must provide data and policy information on one or more websites in English.

11. Historic policy information available

Investors are able to locate recent retrospective policy information for various areas of data per the IMF's SDDS. These can be annual issuance reports, financial stability reports, the central bank's or Ministry of Finance's annual report, debt management reports, or historical borrowing plans.

12. Forward-looking policy information available

Investors are able to identify the country's economic policy planning through the presentation of comprehensive economic outlook reports for the relevant period. This includes the identification of monetary and fiscal policy objectives, as well as assumptions of the economic variables relevant for the individual country. Reporting should also include an assessment of the environmental impacts of budgetary and fiscal policies, key debt management strategy, annual borrowing plans and issuance calendar.

13. Structural information available

Information on structural factors (e.g., legal, regulatory, governance frameworks) supported by the data must be available as appropriate.

14. Dissemination of ESG Data and Policy Information

Countries should maintain a timely flow of information on governments' ESG policies and progress and should disseminate information on the environmental and social dimensions of budgetary and fiscal policies. This includes disclosure of climate commitments, targets, forecasts, scenarios, and outcomes in a clear and timely manner. This criterion is directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 4-point scale, with the maximum points awarded to countries with the highest levels of data transparency.

15. Active investor contact list

Country authorities maintain a list of investors to meet this criterion. Ideally, authorities update and maintain their investor contact lists at least twice annually and the officials from one or more government agencies should distribute policy and macroeconomic information to the investor list via email at least every two weeks. This information should include updated information on governments' ESG policies and progress.

16. Web-based communication with investors

Authorities respond to investor queries or concerns via e-mail, or via an HTML-based feedback mechanism. To meet this criterion, either a general email box, specific email address or HTML- based form must be provided on the IRO, Central Bank, or Ministry of Finance (or Treasury) websites. Responses should be received within 36 hours to fulfill this criterion.

17. Bilateral meetings with investors

Country authorities conduct bilateral meetings with investors on a regular basis. The meetings may be held domestically or abroad.

18. Non-deal roadshow(s)

Country authorities must conduct one or more non-deal roadshows annually.

19. Investor conference call(s)

Country authorities conduct regular investor conference calls on key economic data and policies at least every quarter. To qualify for this criterion, the call must be public. Investors should be invited via email and/or an announcement on a government agency website. The call should be led by the IRO head and senior department heads, with involvement of senior policymakers such as the head of the Debt Management Office, Undersecretary of Finance or Deputy Governor of the Central Bank as needed. "Closed" calls, meaning that only a small group of investors is invited, and the date and time of the call is not published on the website, do not qualify for this criterion.

20. Investor feedback reflected in policy decisions

To fulfill this criterion, senior policymakers should have taken market input into account in their policy decisions. This criterion has been assessed on the basis of survey responses by country authorities and does not account for investor perceptions of whether feedback has been reflected in policy decisions.

21. Senior policymakers accessible to investors

Participation by senior policymakers (Minister, Central Bank Governor, or one of their deputies) is necessary when appropriate. Increasing involvement of senior policymakers is particularly significant at times of diminishing market confidence. To meet this criterion senior policymakers must be involved in at least two of the following three activities: (1) conference calls, (2) bilateral meetings, and (3) non-deal roadshows.

22. Archives of investor presentations and/or conference call related materials available on websites

Relevant official websites must contain an archive of materials presented to investors at roadshows, conference calls, or other meetings or seminars. Materials may include conference call replay and associated documents, investor presentations, and transcripts of speeches by key policymakers.

23. Regular self-assessment of IRP

Country authorities must conduct regular self-assessments of their IR efforts on an annual basis to identify successes and gaps. The self-assessment may be conducted through a survey distributed to the entire investor base or to a representative sample of the investor base.

Table A.1: Classification of IR Evaluation Criteria

Best Practice		Criteria Evaluated in this report
I.	IRO/staff	Presence of a formal IRP
		IR staff identifiable and reachable through websites
II.	IR website	Dedicated IR website in both the local language and English
		Central Bank and government agency websites available in English
		Reciprocal links to Central Bank, Debt Management Office, Ministry of Finance, and other
		Investors able to register for website subscription
III.	Dissemination of macroeconomic data	Country subscribes to SDDS/SDDS Plus
		Effective data transparency of key elements
		Enhanced transparency practices
		Data presented in market-friendly format
IV.	Dissemination of macroeconomic policy information	Historic policy information available
		Forward-looking policy information available
		Structural (legal, regulatory) information available
V.	Dissemination of ESG information	ESG data and policy information
VI.	IR contact list	Active investor contact list
VII.	Feedback and communication channels	Web-based communication with investors
		Bilateral meetings with investors
		Non-deal roadshows
		Investor conference calls
		Investor feedback reflected in policy decisions
		Senior policymakers accessible to investors
		Archives of investor presentations and conference call materials available on websites
VIII.	Regular self-assessment	Regular self-assessment of IRP

Source: IIF

SCORING METHODOLOGY

Based on discussions with investors, a weighting system was developed reflective of the relative importance of different criteria from an investor perspective (Table A.2). With the maximum IR score possible 50, each country was assigned a score based on the number of criteria it met and the weighting of those criteria. Table A.3 outlines the weight allocated to each data dissemination criterion. Table A.4 outlines the weight allocated to ESG data and policy dissemination criterion.

Table A.2: Weighting of IR Criteria

Weight	IR Criteria
4	Effective dissemination of market-relevant debt data
	Enhanced transparency practices
	ESG data and policy information
3	IR staff identifiable and reachable through websites
	Central bank and government agency websites available in English
	Dedicated IR website in both the local language and English
	Forward-looking policy information available
	Active investor contact list
	Investor feedback reflected in policy decisions
2	Presence of formal IRP
	Data presented in market-friendly format
	Historical policy information available
	Structural (legal, regulatory) information available
	Senior policymakers accessible to investors
	Web-based communications with investors
1	Reciprocal links to Central Bank, Ministry of Finance, and other government agency websites
	Investors able to register for website subscription
	Bilateral meetings with investors
	Non-deal roadshows
	Investor conference calls
	Country subscribes to SDDS/SDDS Plus
	Archives of investor presentations and conference call materials available on websites
	Regular self-assessment of IRP

Source: IIF

Table A.3: Weighting of Data Dissemination Criteria

Criteria		Weight
I.	**Country subscribes to SDDS**	**1**
	SDDS Plus Subscription	0.5
	SDDS Subscription	0.5
II.	**Effective data transparency of key elements**	**4**
	Central Government Operations	1
	Timeliness	0.25
	Periodicity	0.25
	Time series availability	0.25
	Breakdown by domestic and external financing	0.25
	Central Government Debt	1
	Timeliness	0.25
	Periodicity	0.25
	Time series availability	0.25
	Breakdown by domestic and external debt	0.25
	External Debt	2
	Timeliness	0.25
	Periodicity	0.25
	Time series availability	0.25
	Resident holdings of public debt issued internationally	0.25
	Non-resident holdings of public debt issued domestically	0.25
	Non-resident holdings of private debt issued domestically	0.25
	Amortization schedule timely and available	0.25
	ıkdown by sector (private and public)	0.25
III.	**Enhanced transparency practices**	**4**
	Broader debt coverage	2
	a. Publicly guaranteed debt	
	b. Local and state government debt	
	c. State-owned Enterprises' (SOEs') debt	
	d. Off-balance sheet liabilities, contingent public-sector liabilities related to public-private partnerships (PPPs), pension obligations, central bank repos and swap lines	
	e. Collateralized/resource-backed debt	
	f. Long-term trade credits	
	Creditor and currency composition of public external debt by instrument, both for domestic and external debt	0.5
	Debt service profile by creditor and instrument, both for domestic and external debt	0.5
	Debt stock and debt service profile on a quarterly frequency	0.5
	Domestic and external bond prospectuses	0.25
	Transaction-level data on loan contracts with all external creditors	0.25
IV.	**ESG data**	
	Information on the environmental and social dimensions of budgetary and fiscal policies	
	Timeliness	0.5
	Periodicity	0.5
	ESG debt issuances and supporting documents	
	Time series availability	0.25
	Prospectus	0.25
	Impact documentation (expected and realized)	0.25
	Third-party verification documents	0.25
V.	**Data presented in market-friendly format**	**2**

Source: IIF

Table A.4: Weighting of ESG Data and Policy Dissemination Criteria

Criteria	Weight
ESG data and policy information	**4**
ESG policy	**2**
Disclosure of climate/SDG commitments and targets	1
Progress towards commitments – disclosure of climate/SDG forecasts and scenarios	1
ESG data	**2**
Information on the environmental and social dimensions of budgetary and fiscal policies	
Timeliness	0.5
Periodicity	0.5
ESG debt issuances and supporting documents	
Time series availability	0.25
Prospectus	0.25
Impact documentation (expected and realized)	0.25
Third-party verification documents	0.25

Source: IIF

ANNEX IV. IIF Best Practices For Formation And Operation Of Creditor Committees

Executive Summary

1. Introduction

The best practices for efficient and effective debtor and creditor engagement, including the formation and operation of Creditor Committees are based on extensive discussions among members of the IIF's Sovereign Risk Management Committee and the Principles Consultative Group, including stakeholders representing both debtors and creditors. Additionally, these best practices have been broadly endorsed by the Group of Trustees. The Group of Trustees, as guardian of the Principles for Stable Capital Flows and Fair Debt Restructuring, consists of senior officials from both advanced and emerging market economies and senior bankers and investors involved in advanced and emerging markets finance, many of whom have participated in the formulation of the Principles. The Principles recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors and also in the early stages and during periods of diminished market access when debt restructuring or reprofiling is deemed unavoidable. In fact, the key advantage of Creditor Committees for debtors has been that endorsement of the terms of a debt restructuring by the Committee signals acceptability of the deal to the wider creditor community and ensures the support of a wider "critical mass" of creditors and investors. Such support can play a vital role in reaching the requisite majority voting thresholds required by collective action clauses in sovereign bond contracts and especially in the context of the aggregated CACs, published by ICMA in 2014, which the IIF supports, where a collection action mechanism is activated in a sovereign debt restructuring proposal.

The Principles provide general guidelines that lay the basis for a voluntary, good-faith debt restructuring process. Paramount among these guidelines is the notion of good-faith negotiations between a debtor and its creditors; the Principles put these two parties at the center of the negotiation process. The Principles recognize the sovereignty of the debtor while upholding the sanctity of contracts during debt restructurings.

2. Creditor Engagement Best Practice Principles

1. Initial Formation

The initiative of forming a Creditor Committee can be taken through various approaches: the debtor can ask for a Committee to be formed – this has occurred in a few cases; the debtor and its creditors and investors (hereafter called "the creditor community") agree to form a Committee – this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

In case multiple committees are formed thought should be given to whether it would be beneficial to form a single steering committee to interface directly with the debtor, particularly where the multiple committees represent substantially similar asset classes.

2. Cooperation and Trust

For the negotiations to proceed in an orderly manner, an element of trust must be developed between the debtor and the members of the Committee, as well as among Committee members themselves. Effective engagement requires the debtor, and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors. The issue of fees and potential endorsement of any proposal in due course should be discussed.

3. Diversity of the Creditor Community

The Committee should consist of creditors and investors who can reflect the interests of the range of members of the creditor community affected in the negotiation process, encompassing, among other things, not only financial instruments and investment strategies but also regional differences. The Committee should hold or represent a substantial number of claims and include a diverse set of creditors and investors.

4. Speed of Process

Experience shows that delay may significantly increase the cost or risk the failure of a restructuring. There should be a presumption that speed is of the essence and this principle should guide all processes including internal coordination and discussions.

5. Confidentiality

Parties should agree on a protocol for managing confidential information including implementing Chinese Walls or similar measures to manage material non-public or confidential information that is shared in the context of a restructuring negotiation.

IIF BEST PRACTICES FOR FORMATION AND OPERATION OF CREDITOR COMMITTEES

1. INTRODUCTION

The best practices for the formation and operation of Creditor Committees are based on extensive discussions among members of the IIF's Sovereign Risk Management Committee and the Principles Consultative Group. Additionally, these best practices have been broadly endorsed by the Group of Trustees. The Group of Trustees, as guardian of the Principles for Stable Capital Flows and Fair Debt Restructuring, consists of senior officials from both advanced and emerging market economies and senior bankers and investors involved in advanced and emerging markets finance, many of whom have participated in the formulation of the Principles. Both groups have been engaged in both encouraging and monitoring the practical application of the Principles through assessments of a variety of country cases. Their input has been important in the shaping of these best practices in order to encourage participation from debtors and creditors who support the Principles. The Principles recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors and also in the early stages and during periods of diminished market access when debt restructuring or reprofiling is deemed unavoidable. In fact, the key advantage of Creditor Committees for debtors has been that endorsement of the terms of a debt restructuring by the Committee signals acceptability of the deal to the wider creditor community and ensures the support of a ”critical mass“ of creditors and investors. Such support can play a vital role in reaching the requisite majority voting thresholds required by collective action clauses in sovereign bond contracts and especially in the context of the aggregated CACs published by International Capital Market Association (ICMA) in 2014; allowing the aggregation of multiple series of debt securities for the purposes of voting in respect of a restructuring proposal, which have been welcome by the G-20, the IMF and the IIF, among others.

The best practice principles for the formation and operation of Creditor Committees are based on established practices of the traditional London Club and adapted to the world of capital markets. As such, these principles aim to reflect the impact securities laws may have on both the Committee's operations and creditor-debtor interactions. They also reflect experience gained in corporate restructurings.

It is import to stress that negotiations in good faith should remain the essence of debt restructurings. A move away from good-faith negotiations between issuers, creditors and investors on the basis of a limited number of exceptions is inconsistent with the international understandings that have been historically at the heart of sovereign debt restructurings. The need for such negotiations between the parties is increased and even more significant if the requisite thresholds envisaged under the aggregated CACs are to be met and the sovereign is to benefit fully from the enhanced collective action mechanism.

2. THE ROLE OF GOOD-FAITH NEGOTIATIONS AND CREDITOR COMMITTEES IN THE PRINCIPLES

General Guidelines for Sovereign Debt Restructurings

The Principles provide general guidelines that lay the basis for a voluntary, good-faith debt restructuring process. Paramount among these guidelines is the notion of good-faith negotiations between a debtor and its creditors; the Principles put these two parties at the center of the negotiation process. The Principles recognize the sovereignty of the debtor while upholding the sanctity of contracts during debt restructurings.

Good Faith

The *Principles* place great importance on good- faith negotiations as a key element of the debt restructuring process. They call on creditors and debtors to "engage in a restructuring process that is voluntary and based on good faith. 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 balance of payments sustainability in the medium term." The Principles add that "debtors and creditors agree that timely good-faith negotiations are the preferred course of action toward these goals, potentially limiting litigation risk." Such negotiations are thus at the heart of the restructuring process, including through the operation of Creditor Committees.

However, it is very difficult to come to a precise definition of "good faith" and it is neither wise nor practical to seek an exhaustive set of criteria to evaluate this principle. We agree that, rather than defining the principle itself, the most productive approach is for any participant in the negotiation process to indicate when it believes that actions of another party have not been conducted in good faith.

Creditors and Debtors at the Center of the Negotiation Process

As a joint product of issuers and investors, the Principles maintain that the final result of the restructuring process should be obtained through cooperative interaction between the debtor and its creditors. The Principles also maintain that "regardless of the specific restructuring mechanics and procedures used (i.e., amendment of existing instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced."

Sovereignty of the Debtor

The Principles recognize the sovereign nature of the debtor. They emphasize the importance of putting a country back on a sustainable economic path, while preserving and protecting asset values during the restructuring process. At the same time, they also uphold the sanctity of contracts between sovereign debtors and creditors, stating that, "subject to their voluntary amendment, contractual rights must remain fully enforceable to ensure the integrity of the negotiating and restructuring process."

The Role of Creditor Committees in the Principles

The *Principles* support debtor-creditor negotiations as the preferred way forward in cases which require a debt restructuring. They also articulate the role of Creditor Committees in such negotiations, especially in cases of default.

Under the sub-principle "vehicles for restructuring" the Principles state,
"The appropriate format and role of negotiation vehicles such as a creditor committee or another representative creditor group (hereafter referred to as a "creditor committee") should be determined flexibly and on a case-by-case basis. Structured, early negotiations with a creditor committee should take place when a default has occurred in order to ensure that the terms for amending existing debt contracts and/or a voluntary debt exchange are consistent with market realities and the restoration of growth and market access and take into account existing CAC provisions. If a creditor committee is formed, both creditors and the debtor should cooperate in its establishment."

If a Creditor Committee is formed, the Principles provide guidelines in order to enhance its effectiveness.

They stipulate that Creditor Committees "*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 form a single Committee;*
- *Be a forum for the debtor to present its economic program and financing proposals;*
- *Collect and analyse economic data;*
- *Gather, evaluate, and disseminate creditor input on financing proposals; and*
- *Generally act as a communication link between the debtor and the creditor community."*

In October 2004 the International Primary Market Association (IPMA)1 released standard collective action clauses for fiscal agency agreements under English law that also contained provisions for the appointment of a Noteholders' Committee. This provision was updated in 2014 for use across issuances in conjunction with the new ICMA standard aggregated CACs and, following further broadly based consultations, were further revised in 2015. The updated Noteholders' Committee provisions allow the aggregation of debt across multiple series of debt securities to meet the requisite threshold to form a committee, and, in instances where multiple creditor committees are formed, require that a simple steering committee interfaces directly with the debtor. These contractual provisions written in times of normal market access should help to guide the process at other times (including a time of crisis) and thereby facilitate sovereign debt restructurings further. Their take up has, thus far, however, not matched the adoption of the aggregated CACs in sovereign bonds issued since their publication.

In practice, however, a Creditor Committee can be formed at the time of need whether or not a creditor engagement provision is included in the underlying debt contracts. With this in mind the best practice principles which follow are valuable both in cases where there is an underlying creditor engagement clause and where there is no such provision.

3. BEST PRACTICE PRINCIPLES FOR CREDITOR COMMITTEES

1. Key Concerns Regarding Creditor Committees

Over the past few years, establishing Creditor Committees has faced certain hurdles. On the one hand, debtors have, in some cases, objected to recognizing Creditor Committees for various reasons: either because they were not involved in the formation of the Committee; had reservations regarding certain Committee members with whom they did not want to negotiate; questioned the Committee's representativeness; or because they simply did not want to negotiate with creditors and investors, preferring to do so bilaterally or not at all. On the other hand, some members of the creditor community have been reluctant to join Creditor Committees if they saw it as constraining their range of options or they have not been able to because they have not had the corporate structures which would allow them to participate.

On the sovereign side, there has also been some reluctance to accept to pay the costs of the Creditor Committee and a desire that the good faith negotiation requirement should apply to creditors as well as debtors.

Perceptions by some issuers that the Committee process is slow-moving and causes delay in the resolution of a debt problem have also been cited as a reason that they have favored a unilateral approach. When considering such an approach, issuers should be aware that refusal to negotiate may result in low participation and expensive lawsuits, and as a result possible constraints on market access.

Much of the debate has centered on the issue of "representativeness" of a Creditor Committee. In some cases, issuers' legal advisors have questioned whether Committee members have secured mandates from other members of the creditor community in order to represent them. Such a request goes against the grain of reality, however. Historically, members of Creditor Committees have not formally "represented" other creditors and investors but they have reflected the views of the creditor community during the negotiations with a view toward attracting a critical mass of support for negotiated restructuring terms. In a small

number of cases, a group of creditors and investors, in particular fund managers, have appointed a representative to the Committee to negotiate on their behalf.

Representativeness has also been interpreted to mean sufficient diversity of creditors and investors. Diversity in turn has caused concerns in some quarters that Creditor Committees are cumbersome to deal with, especially since different members of the creditor community may have divergent interests because they may have purchased credit default swaps or other protections, or because they may have acquired instruments on the secondary market and thus are not original holders.
In today's market, a Committee having a diversity of creditors and investors is likely to mean having banks, fund managers, hedge funds, and retail investors either represented and/or directly involved. However, debtors have objected that some types of creditors and investors who would need to have representativeness are not capable structurally of maintaining the needed confidentiality and obeying the applicable insider trading rules.

While confidentiality was protected by unwritten rules in the 1980s and 1990s, today's world of securities offerings has set higher standards.

One issue relates to the type of information a debtor can release ahead of an offering. (Unregistered offerings are speedier and lower cost options but the release of the ”wrong“ type of information may delay or prohibit the debtor from proceeding with an unregistered form, and instead a registered offering may be required.)

The other issue is that securities laws (in most jurisdictions) preclude trading on non-public material information, and a Committee is likely to come in contact with such information. This is a concern for creditors, investors, and debtors. For creditors and investors, the ”stop trading“ rules of some previous restructurings are not feasible. For the debtor who may bear many of the negative consequences of information leaks and insider trading, a ”no trading“ rule may be preferred for Committee members.
As a possible solution, a ”code of conduct“ has been used in a few cases in the sovereign context but cues have been taken in particular from corporate restructurings. Such a code is an agreement between the debtor and the Creditor Committee on a range of issues. It imposes simple restrictions on confidential information on both sides and offers more flexibility on trading for Committee members who commit to complying with insider trading rules.

The best practice principles articulated below address these key concerns as well as other issues with the aim to develop a better basis for Creditor Committees to be acceptable to issuers and protect the rights of creditors and investors.

2. Creditor Committee Best Practice Principles

A. Initial Formation

The initiative of forming a Creditor Committee can be taken through various approaches: the debtor can ask for a Committee to be formed – this has occurred in a few cases; the debtor and its creditors and investors (hereafter called ”the creditor community”) agree to form a Committee – this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

If multiple creditor committees are formed, in order to make the process as efficient as practicable, thought should be given to whether it would be beneficial to form a single steering committee to interface with the debtor. Where there is considerable diversity in the asset classes represented by different committees, the formation of a single steering committee may not be as beneficial as it would be in instances where multiple committees represent substantially similar asset classes.

B. Cooperation and Trust

1. In order for the negotiations to proceed in an orderly manner, an element of trust must be developed between the debtor and the members of the Committee, as well as among Committee members themselves.

2. The Principles call on the debtor and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors.

3. It is also important for there to be an open discussion concerning who should meet the reasonable costs, including legal and financial advisory fees, incurred by the Committee.

4. The parties should also discuss the issue of endorsement of the terms of a debt restructuring to be given at the end of the negotiation process. To the extent the Committee agrees with the terms of a debt restructuring it should seek to signal support for the proposal, to the extent possible. There may be instances where unanimous support of the Committee cannot, despite good faith negotiations, be obtained. In such instances, it should be understood that the debtor should not feel precluded from bringing its restructuring proposal to the market nevertheless, especially if it believes there is significant support for it.

C. Diversity of the Creditor Community

1. The Committee should consist of creditors and investors who can reflect the interests of the range of members of the creditor community affected in the negotiation process.

2. Diversity of Committee members should encompass not only financial instruments and investment strategies but also regional differences. The latter is particularly useful in order to consider differential tax treatments and regulatory differences that may help design options to facilitate the participation of the creditor community in different jurisdictions in the restructuring.

3. In order to facilitate participation by hedge funds and asset managers who may face conflicts of interest when they come into contact with material non-public information or other constraints (staffing, for example), consideration could be given to appointing an external representative. Such an individual should have appropriate restructuring experience (as described below) and operate under his terms of reference. This representative would be bound by confidentiality parameters (see below) and would provide only the necessary information that his clients need in order to make decisions regarding the restructuring negotiations.

4. The Committee should be of a manageable size, but Committee membership should not be limited only to ”large“ creditors and investors. At the same time, the Committee as a whole should at all times hold or represent a substantial amount of claims and should include a diverse set of creditors and investors (see ”Diversity“ above).

5. A Committee must have credibility with the debtor and be able to signal that it has influence with a critical mass of all creditors and investors although as a legal matter the Committee will not be able to bind holders of the debtor's debt securities in any event, acceptance or not of a proposal will be based on participation by such holders in an exchange offer and/or voting rights being exercised as part of a collective action mechanism, for example. To the extent, however, that the Committee would wish to discuss matters of internal ongoing administration following its establishment, the Committee should not need to act by unanimity in respect of any decisions to be taken.

6. The debtor and the Committee must be prepared to discuss the relative contribution, by way of debt relief or otherwise, of other creditors, such as bilateral and multilateral creditors: in the context of any debt sustainability analysis underpinning the restructuring discussions.

D. Speed of Process

3. The creditor community should work closely with the debtor toward the formation of the Committee, recognizing that this process can be initiated through different channels. There should be a presumption that speed is of the essence.

4. Creditors and investors should consider approaches to internal coordination that expedite rather than delay the process.
5. Creditors, investors and the debtor should agree on the negotiation process that should be followed, including the nature and sequence of the discussions. Such an understanding, which of course should not delay the actual negotiations, could help inform the IMF, for example if judgments on lending into arrears need to be made.

6. Committee members should take into account the time commitment they must set aside from their day-to-day work in order to participate in restructuring negotiations. To ensure continuity, it is important that a particular creditor or investor be represented by the same individual throughout the restructuring process.

7. Effective Committee leadership will be key to ensuring an efficient Committee process.

E. Confidentiality

1. The members of the Committee, the debtor, and advisory firms should consider agreeing on and signing a ”code of conduct.”

2. Any information not already in the public domain would be considered confidential.
3. Under the code, parties would agree to refrain from disclosing confidential information to anyone other than a list of related parties (provided they also subject themselves to the code) unless required by law.

4. Under the code, parties could issue periodic press releases that comply with applicable securities law to ”share information with the market.” Information would not be released that either ”conditions the market“ for an offering or that could be seen as deceptive.

5. Legal advisors to parties should advise on what information can be released.

6. Committee members should implement Chinese Walls or similar measures to ensure that those who make trading decisions are not in the possession of confidential information that is shared in the context of a restructuring negotiation.

7. Negotiations should take place directly between the debtor and creditors, without the participation of multilateral or bilateral organizations, unless their participation or presence is requested by either the debtor or the creditors, and the other side agrees to such a request.

8. Both debtor and creditors should avoid commenting on the negotiations, especially whist these are ongoing, as this could undermine trust and also result in price sensitive information leaking into the capital markets and affecting the price of the debtor's securities.

F. Restructuring Experience

1. The ”tool kit“ of at least some of the Committee members' experience should include practical skills in sovereign and/or non-sovereign restructurings.

2. Creditors and investors who are new to the asset class should not be excluded for lack of experience, in particular if their claims are substantial.

3. Committee members should consider the feasibility of particular restructuring proposals they aim to advance with the debtor.

G. Legal Advisors

1. The law firm representing the Committee should have ample debt restructuring experience.

2. If the firm has business relationships with Committee firms, in particular those with sizable shares of the outstanding debt, potential conflicts of interest should be addressed internally.

H. Logistical Support

1. Committee members should share responsibilities for providing facilities and staff to arrange meetings and for handling communications with the debtor as well as other members of the creditor community not on the Committee.

2. The clearing systems should be leveraged as a communication tool particularly in cases in which a substantial amount of debt is held at the retail level.

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Tel: 202-857-3600 | www.iif.com | @iif
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