PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

REPORT ON IMPLEMENTATION BY THE PRINCIPLES CONSULTATIVE GROUP

WITH A COMPREHENSIVE UPDATE ON
INVESTOR RELATIONS PROGRAMS
AND DATA TRANSPARENCY

OCTOBER 2020

TRANSPARENCY **COOPERATION** **GOOD FAITH** **FAIR TREATMENT**

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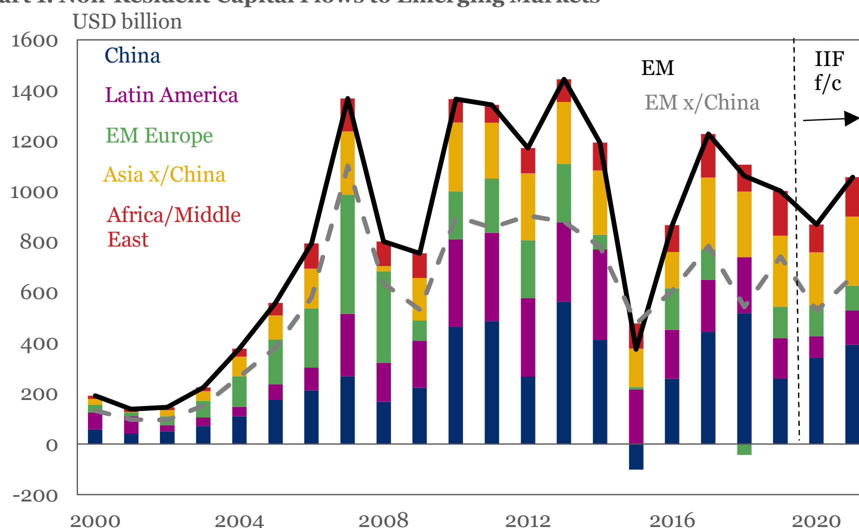
I. Overview

The impact of COVID-19 pandemic on global debt markets has been unprecedented. In early 2020 the COVID-19 shock prompted a sharp sudden stop in portfolio debt flows to emerging markets, with Q1 recording the largest quarterly EM outflows on record—exceeding the worst seen during the global financial crisis. As social distancing became the norm around the world, the global economy plunged into recession with significant adverse implications on global trade and international investment flows. Along with a sharp contraction in economic activity, increased debt accumulation by governments led to a record surge in global debt ratios in the immediate aftermath of the lockdowns, with emerging market debt rising by over 10 percentage points to 230% of GDP. While there was some pickup in growth momentum in Q3, the IIF estimates that the global GDP will decline by over 4 percent in 2020. Recovery remains patchy and varied across countries, leaving economic activity more dependent on supportive policy measures. In this volatile and challenging environment, maximizing liquidity relief for households and corporates remains vital for handling the COVID-19 crisis. However, this will add an additional burden to sovereign budgets. With economic recovery expected to be slow and uneven, government debt levels in 2021 are projected to reach 125% of GDP in mature markets and 65% of GDP in emerging markets—up by 20ppts and 10pts from 2019 levels, respectively.

Debt sustainability is also a very significant concern for vulnerable low-income countries (LICs). Total public debt across LICs is expected to increase from below 55% of GDP in 2019 to near 60% by 2021. With outstanding public and publicly guaranteed (PPG) long-term external debt over 25% of GDP, many low and lower-middle income countries now face much higher debt servicing costs than a decade ago. Facing a sharp contraction in global trade and remittance flows, the strength of the U.S. dollar is an increasing challenge for many highly indebted countries—nearly 65% of PPG external debt in low income countries is denominated in U.S. dollars. In response to COVID-19, the G20's Debt Service Suspension Initiative (DSSI) has allowed the world's highly indebted poor countries to obtain support for upcoming debt payments. Out of the 73 countries eligible for the DSSI, nearly 45 countries have requested forbearance, allowing them to delay a total of $5.3 billion in repayments due this year—almost half of the $11.5 billion owed to official bilateral creditors. To supplement, official multilateral creditors have used existing tools, including emergency funding facilities. The IIF estimates that an extension of the DSSI through the end of 2021 could free up over $23 billion for in-scope countries.

Chart 1. Non-Resident Capital Flows to Emerging Markets



Source: Haver, IIF

Against the backdrop of increasing fiscal financing gaps, preserving and expanding international market access remain vital. While recovery prospects remain uncertain, international lending conditions started normalizing in the second half of 2020. Spurred by abundant central bank liquidity and persistently low rates, the pickup in Eurobond issuance by emerging market (EM) sovereigns has been remarkable. Spreads for investment grade emerging market bonds are well below pre-COVID levels, while high-yield EM spreads have narrowed sharply from record highs in mid-March and are rapidly approaching 2018-19 levels. International bonds from in-scope IDA countries have been trading above par, signaling a cautious return of investor confidence. However, the bulk of the rise in issuance has been driven by investment-grade EM sovereigns while access of more vulnerable low-income economies to international markets has been limited. As noted in the IIF Capital Flows to Emerging Markets Report, non-resident capital flows to the 25 major emerging markets are estimated to decline from over $1 trillion in 2019 to some $869 billion in 2020 largely driven by a slowdown in portfolio and cross-border banking flows (Chart 1). The importance of market access and the need to ensure international appetite for EM securities underscores that crisis response to both liquidity and solvency challenges should remain on a case-by-case basis. Any coercive or top-down approach will risk endangering the speed and the strength of the recovery while limiting external funding opportunities—including for much-needed investment for sustainable development goals.

In this highly uncertain environment, the *Principles for Stable Capital Flows and Fair Debt Restructuring* continue to provide a helpful framework for crisis prevention and resolution, particularly in the cases of sovereign debt distress or restructuring, such as those featured in this report. The *Principles* are a voluntary code of conduct between sovereign debt issuers and their private sector creditors, agreed to in 2004 and endorsed by the G20 Ministerial Meeting in Berlin in November 2004 (see Annex I). Until October 2010, the *Principles* applied only to sovereign issuers in emerging markets, but their applicability has since been broadened to encompass all sovereign issuers (on a voluntary basis) and non-sovereign entities in cases where the state plays a major role in influencing the legal parameters of the debt restructuring.

The *Principles* incorporate voluntary, market-based, flexible guidelines for the behavior of sovereign debtors and private creditors with the aim of promoting and maintaining stable capital flows, financial stability and sustainable growth. The Principles promote crisis prevention through the pursuit of strong policies, data and policy transparency, and open communication and dialogue with creditors and investors —particularly through investor relations programs (IRPs). 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 are monitored by two oversight bodies—the Group of Trustees and the Principles Consultative Group (PCG), which includes senior officials from developed and emerging-market countries, as well as senior bankers and investors.

The effective implementation of the *Principles* has helped safeguard access to private external financing during periods of global financial stress (see Box 1). Countries that have employed the combination of good policies, good communication and disclosure practices—especially through active IRPs—have been able to maintain investor confidence and have performed better relative to others, both during the 2008-09 global financial crisis and in 2020.

In view of the rising uncertainty in global financial markets, the PCG stepped up the frequency of its conference calls and extensive discussions around country cases and the global response to financial turmoil triggered by the Covid-19 pandemic. The discussions have covered the growing diversity of the creditor base in sovereign debt markets, with a greater role for non-Paris Club bilateral creditors, different types of commercial creditors and lenders with hybrid public/private features. As was highlighted by the implementation of the G20 DSSI, these changes have underscored the need for better coordination among all creditors and more transparency. The PCG has also discussed developments in the recent sovereign debt restructurings in Argentina, Ecuador, Congo and the Gambia as well as recent defaults in Lebanon and Venezuela where progress on debt restructuring hinges on normalization of the political backdrop. During the PCG discussions, many members noted that the evolution of some debt restructuring cases in 2020 suggest the need for a review of the contractual framework including the use of collective action clauses. The group also closely followed a number of other country cases with growing debt vulnerabilities, including Zambia, Angola and South Africa. Finally, the PCG also received regular updates on the unique debt restructuring operation in the U.S. territory of Puerto Rico.

Box 1. BENEFITS OF IMPLEMENTING THE *PRINCIPLES*

The *Principles'* greatest strength is derived from the incorporation of voluntary, market-based, flexible guidelines for the behaviors and actions of debtors and creditors, which have been developed by all concerned parties. The main benefit for the system as a whole is their proactive and growth-oriented focus given that the *Principles* are operative not only after a crisis has occurred, but also in the early stages and during periods of diminished market access.

The *Principles* also yield substantial shared benefits for sovereign issuers and their creditors. By emphasizing crisis prevention, the *Principles* can offer significant benefits to sovereign borrowers by helping them reduce debtor country vulnerabilities to economic or financial crises, as well as the frequency and severity of crises and the huge economic costs associated with such crises, by promoting:

- Information sharing and close consultations between debtors and their creditors to provide incentives for sound policy action in order to build market confidence, thus ensuring stable capital flows to these countries and preserving financial stability.
- Enhanced creditor–debtor communication by encouraging debtors to strengthen IR activity based on good market practices and encouraging investors to provide feedback. IR practices enable policymakers to make market-informed policy decisions.
- Early corrective action through sound policy-making, stimulated in some cases by intensified IR activity or based on direct consultations between the debtor and its creditors.

In cases where debt restructuring is deemed unavoidable, the Principles encourage cooperation between debtors and creditors in an orderly process based on engagement and good-faith negotiations toward a fair resolution of debt-servicing difficulties. Such actions can accelerate a country's restoration of market access and economic growth.

Through these cooperative actions, the Principles have underpinned a sustainable and healthy flow of private capital to emerging-market economies, facilitating needed investment for long-term growth. In addition, cooperative action and enhanced creditor–debtor communication are consistent with the implementation of debt relief programs supported by multilateral organizations and public sector creditors, in particular, the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative. New sovereign issuers in particular stand to benefit from the proactive implementation of enhanced data transparency and IR practices as recommended by the Principles. New issuers can attract investment through strengthened communication with creditors.

Box 2. FRAMEWORK FOR MONITORING THE IMPLEMENTATION OF THE *PRINCIPLES*

The *Principles* set forth a voluntary approach to debtor–creditor relations, designed to promote stable capital flows to emerging-market and other debtor countries through enhanced transparency, dialogue, good-faith negotiations, and equal treatment of creditors. The implementation of the *Principles* is based on the cooperation and partnership between issuers and investors that was evident during the discussion that led to their creation.

The ***Group of Trustees*** is the guardian of the *Principles*. The Group consists of 47 current and former leaders in global finance with exceptional experience and credibility. The Group has three co-chairs. The current co-chairs of the Group are **Axel Weber**, Chairman of the Board of Directors, UBS Group AG and former President of the Bundesbank; **François Villeroy de Galhau**, Governor of Banque de France; **Yi Gang**, Governor of the People's Bank of China (see Annex III for the list of all members of the Group of Trustees).

The Trustees meet once a year to review the progress being made on the implementation of the *Principles* within the framework of the international financial architecture. The Group oversees the work of the **Principles Consultative Group (PCG)**, a select group of finance and central bank officials with senior representatives of the private financial community tasked with monitoring and encouraging the practical application of the *Principles*.

The PCG currently has 37 members, including finance ministry and central bank officials from a diverse group of emerging markets and senior representatives of the private financial community, many of whom were instrumental in the formulation of the *Principles* (see Annex IV for a list of the PCG members). The membership of the Group has increased since its first meeting in 2005 to represent more adequately the evolution of global finance in emerging markets and other debtor countries. The PCG maintains an appropriate balance between private and public sector members, as well as membership balanced in geographical scope. PCG conference calls are held regularly to discuss implementation issues, country cases, and implications of developments in global capital markets. Members enrich PCG discussions with diverse experiences and perspectives.

The IIF supports both the PCG and the Group of Trustees as their secretariat. The IIF secretariat consults with members of the PCG as well as other market participants as to which country cases or regions to include in PCG discussions. It also prepares background material on international capital market developments, country issues, and other topics on the agenda.

II. PCG Discussions of Regional and Country Developments

a. Overview of PCG Discussions

Against the backdrop of global recession induced by the COVID-19 pandemic and sudden stop in capital flows seen in the first quarter of 2020, the PCG increased the frequency of the quarterly conference calls to discuss the growing list of country cases and to exchange views on the parallel official and private sector efforts to help countries facing liquidity challenges. PCG members have closely followed the implementation of the G20/Paris Club DSSI, which has allowed over 40 low-income countries to temporarily suspend debt payments to official bilateral creditors. Discussions included frequent updates on the development of private sector toolkit for voluntary implementation of DSSI. The discussions have also covered the growing diversity of the creditor base in sovereign debt markets, with a greater role for non-Paris Club bilateral creditors, different types of commercial creditors and lenders with hybrid public/private features. Greater diversity in the creditor base has also made debtor-creditor engagement more complex, with signs of fragmentation in creditor committees. As highlighted by the implementation of the G20 DSSI, these changes have underscored the need for better coordination among all creditors and more transparency. The PCG also continued to follow private sector efforts to operationalize the *Voluntary Principles for Debt Transparency*, including efforts to establish a data repository. Finally, the PCG discussions reviewed the implementation of the ICMA 2014 contractual reforms and discussed the use of collective action clauses (CACs) in recent restructurings, as well as other emerging issues in the international architecture for sovereign debt restructuring. Recent PCG discussions of cases of restructuring in 2020 underscore that there may be a need for review of the contractual framework including the use of CACs (see Box 3).

b. PCG Discussions of Country Cases

Over the past year, the PCG has discussed active debt restructurings in a number of country cases including Argentina, Belize, Ecuador, Congo and the Gambia as well as recent defaults in Lebanon and Venezuela where progress on debt restructuring hinges on normalization of the political environment. Debt operations in Ecuador and Belize were the first two cases of EM countries receiving temporary debt service forbearance from their private creditors outside the G20/Paris Club framework. The group also closely followed a number of other country cases with growing debt vulnerabilities, including Zambia, which in September 2020 became one of the first DSSI-eligible countries to request debt service forbearance from bondholders. The PCG also discussed the implementation of G20 DSSI in Angola, as well as growing debt vulnerabilities in South Africa. Members noted that at the end of April 2020, South African securities were excluded from the FTSE World Government Bond Index after the country was downgraded to sub-investment grade by all three credit rating agencies. Finally, the PCG also continued to follow the unique debt restructuring operations in the U.S. territory of Puerto Rico.

ANGOLA

The COVID-19 pandemic, plummeting oil prices and dwindling oil production have reduced hopes for economic growth in Africa's second-largest oil producer and raised concerns over its ability to service external debt. The country's credit ratings were reassessed in March 2020, when Fitch downgraded Angola to "B-" and then to "CCC" in September; S&P downgraded the country to "CCC+", and Moody's to Caa1 down from B3. Against the backdrop of a faltering economy and loss of market access, authorities in Angola have sought a temporary freeze on the servicing of official bilateral loans under G20's Debt Service Suspension Initiative (DSSI) and have used funding from the sovereign wealth fund to limit spending cuts and loss of official reserves. Angola's biggest creditor is China—with roughly $19 billion in outstanding debt. With the drop in oil revenue, Angola has been working on restructuring loans from Chinese banks and

commodity traders. In September, the IMF reported that Angola has secured debt reprofiling agreements with several large creditors for a cumulative debt flow relief of $6.7 billion.

On September 16, 2020, the IMF approved the third review of Angola's EFF program, which had originally been scheduled for July 30, leading to the disbursement of $1 billion. The IMF board also approved an augmentation of the program by $765 million, which brings the size of the overall program to $4.5 billion, with $2.5 billion already disbursed. The IMF notes that due to high uncertainty in the current environment, Angola has indicated that it would seek debt relief from a wider group of creditors if downside risks materialize. Angola is expected to receive about $1.3 billion in budget support from the World Bank and other development institutions in 2020. Even with the debt reprofiling and strong fiscal consolidation, the IMF projects that the total debt service will exceed 100 percent of fiscal revenues in 2020.

According to the IMF public debt will rise from 109% of GDP in 2019 to 123% of GDP in 2020, reflecting the depreciation of the exchange rate and the collapse in oil prices in the wake of the COVID-19 shock. Angola's external debt is projected to peak at 94% of GDP in 2020. The country has around $9.5 billion of Eurobonds outstanding and the first maturity payment is due in 2025. In early 2020, Angola postponed Eurobonds issuance of up to $3 billion due to adverse market conditions.

ARGENTINA

Argentina finalized the restructuring of over $60 billion in foreign law bonds on August 31, more than three months after officially entering default for the ninth time. Bondholders tendered 93.55% of the eligible bonds allowing the exchange of 99% of the bonds with use of collective action clauses. Such strong bondholder support stands in contrast to Argentina's 2005 restructuring that had 25% holdout rate and reflects efforts to reach a negotiated deal with bondholders. On September 4, S&P upgraded Argentina's long-term sovereign credit to CCC+ from SD after the country issued new securities in exchange for the defaulted bonds.

The restructuring negotiations extended over nine months with some unforeseen complications. As global shutdowns and social distancing measures took hold in March, debt negotiations had to transition to Zoom. In addition, Argentina's very diverse stock of bonds made it difficult for bondholders to organize, contributing to their fragmentation into three separate creditor committees. Other bondholders engaged with the Argentine authorities bilaterally. While Argentina's bonds did not include the creditor committee clause, this was one of the first debt restructurings to test the 2014 ICMA model CACs, resulting in modifications to the CAC language in the exchange bonds.

More than a month after officially proposing via decree to restructure the foreign-currency New York law bonds, Argentina issued the first tender offer on April 17, with a May 8 deadline for creditors to accept an exchange. On April 22, the country missed $500 million in coupon payments on dollar-denominated bonds maturing in 2021, 2026 and 2046. Argentina officially entered its ninth default upon the expiration of the 30-day grace period on May 22, triggering the payment of $1.5 billion in credit default swaps. Between the first offer and the final deal on August 4, Argentina and its creditors exchanged at least five offers. The final deal reached on August 4 extends maturities, lowers the average coupon rate from 7% to about 3% and defers the earliest amortization until 2024. All together the plan is expected to produce $38 billion in savings for Argentina over the next ten years, while giving the government space to return to a sustainable growth path and re-engage with the IMF. Argentina owes $44 billion to the IMF dating from the 2018 Stand-by-Arrangement, and with debt payments coming due in 2021-23, it will need to negotiate new payment terms. On August 26, Argentina submitted a request for a new financing agreement with the IMF.

From the outset, it seemed probable that any debt restructuring of the external debt would be complicated by differences in the formulation of collective action clauses (CACs) between bonds issued in the 2005 and 2010 restructurings (the "Exchange Bonds") and bonds issued starting in 2016 during Mauricio Macri's administration ("Macri bonds"). The 12 series of Exchange bonds ($22 billion) allowed for cross-series modifications under a dual-limb approach only, with voting thresholds of 85% in the aggregate and 66-2/3% for each series to be modified. While the 17 series of Macri bonds ($41 billion) included the latest

single-limb CACs (75% threshold) as well as two-limb CACs with voting thresholds of 66 2/3% in the aggregate and 50% in each series. Further, the Macri bonds stated that the votes of any series of the Exchange bonds would be counted so long as the proposed modification for that series passed its required vote.

Argentina's offer to bondholders included two strategies that were previously unseen. First, Argentina indicated that it would reserve the right to amend the composition of a pool of bonds designated for restructuring at any time, including after the votes have been cast. This has been commonly referred to as a "redesignation" strategy and has raised concerns of gerrymandering. Second, Argentina proposed using single-limb CACs iteratively to pool restructured bonds with holdouts, and in effect "sweep in" dissenting bondholders (the so-called "PacMan" strategy). Many bondholders, as well as market observers who participated in drafting of the 2014 model CACs, thought that these strategies sought to alter the balance between the debtor and the creditors in a way that went against the spirit of the CACs, potentially setting a negative precedent for future debt restructurings. In the end, agreement was reached to amend the CACs in the new exchange bonds to limit Argentina's ability to reallocate series and carry out the "PacMan" strategy in future restructurings.

Argentina ultimately left behind its history of unilateral offers and reached a negotiated solution around which all three bondholder committees and other bondholders were able to coalesce. Restructuring was aided by the CACs, which allowed 99% of the bonds to be exchanged. However, Argentina's choices in structuring the redesignation and "PacMan" strategies have raised concerns that similar tactics might be used in the future by other debtors. This has added to calls to re-examine the CAC framework. In addition, Argentina's final tender offer included a minimum participation condition—which rather than adopting a simple critical mass formulation, as has been the norm previously—was constructed in such a way that it could have been complied with a participation level lower than 50% (as measured by reference to eligible bonds included in the tender offer at launch). This raised concerns among bondholders. Provisions were also included in Argentina's tender offer which ensured that those that did not vote in favor but were crammed down through the use of CACs received economically less favorable terms than those that did vote in favor. This approach also raised concerns among bondholders.

BELIZE

On August 10, Belize reached an agreement with its bondholders to restructure $526 million in international bonds due in 2034 ("Superbond"). The government announced that holders representing 82% of the outstanding debt had agreed to amendments on the terms of the bonds set out in the consent solicitation statement, allowing the restructuring to be completed through triggering of the collective action clauses (CACs). The amendment defers and capitalizes quarterly interest payments due from Aug. 20 -Feb. 20 of 2021, without affecting the bonds' final maturity. Obligations after February 20, 2021 will not be affected. On August 21st, S&P removed Belize from the selective default and upgraded the sovereign rating to "CCC+".

On June 17, the government announced it would seek the consent of holders of 2034 Superbond for a six-month moratorium on interest payments due to the impact of the COVID-19 pandemic. As an upper-middle income country, Belize is not eligible for the G20/Paris Club DSSI. In addition to Ecuador, this was another successful example of market-generated solutions to a liquidity crisis. It was in part aided by the creditor committee clause in the Superbond, which allowed a bondholder committee to be organized almost immediately after the government's announcement. Government officials held talks with bondholders over the next few weeks before launching a formal consent solicitation on July 17.

This was Belize's third bond restructuring in eight years. The government restructured the same Superbond in 2017, following a previous restructuring that was completed in 2013. In 2006-07, Belize exchanged various external public debt instruments including loans and bonds for a $547 million Superbond.

Belize was already in recession due to drought and a slowdown in tourism starting in second half of 2019, and the financial turmoil caused by COVID-19 pandemic was the proverbial nail in the coffin. In April, S&P lowered the credit ratings from a "B" negative to a "CCC" citing the effects of the COVID-19 pandemic on

the tourism sector and the wider economy. Similarly, on May 12, Moody's cut the country's credit rating to Caa1 from B3 citing an "increased and now very high probability" that it Belize would either defer its interest payments or enter into a distressed debt exchange because of the pandemic. Belize authorities are projecting a contraction of 18% of the real GDP in 2020.

REPUBLIC OF CONGO (BRAZZAVILLE)

Since finalizing restructuring of its Chinese debt in May 2019, Congo has been negotiating restructuring of its commercial debt, comprising $1.7 billion in prepaid oil contracts (15% of GDP) owed to three international oil traders. After more than a year of negotiations, the parties reached a high-level Memorandum of Understanding in the fall of 2020, moving closer to the completion of the commercial debt restructuring. This is an important step towards restoring external debt sustainability and unlocking additional IMF financing. Last July, the IMF approved a 3-year Extended Credit Facility (ECF) with Congo for about $449 million, of which only $45 million has been disbursed. Additionally, Congo has applied for emergency financing under the Rapid Credit Facility to help with its response to the pandemic.

In June it was announced that Congo had benefitted from debt service suspension from the Paris Club creditors (Belgium, Brazil, France and Russian Federation) through the end of 2020. The country has also committed to seek debt service suspension from all its other bilateral official creditors, in line with the Paris Club/G20 DSSI term sheet. In response to the COVID-19 pandemic, the EU, World Food Program, and France have pledged support for the poorest segments of the population while UN agencies have provided about $8 million.

Amidst the twin shocks of the COVID-19 pandemic and a sharp decline in oil prices, the third largest oil producer in Africa is facing difficult economic conditions, high debt levels, low growth, and limited business confidence. While real GDP growth somewhat improved in 2018/19 after two years of contraction, it is expected to be -2.3% in 2020, according to the IMF. As authorities implement prudent fiscal and debt management policies, public debt is expected to decline from its peak level of over 117% of GDP in 2017 to 73% of GDP in 2020. Nevertheless, Congo remains in debt distress as it has accumulated external and domestic arrears. External public debt was around 62% of GDP in 2019, out of which 20% of GDP was in arrears.

ECUADOR

In March 2020, Ecuador became the first emerging market country to successfully negotiate a time-bound suspension on interest payments with bondholders (as envisaged by the G20 DSSI, though Ecuador is not in scope for the DSSI) through a market-driven process. This debt service standstill provided temporary cash flow relief allowing the country to re-direct resources for managing the Covid-19 outbreak and gave it time to plan for a more comprehensive debt restructuring and negotiations with the IMF for another program. Due to Ecuador's profile as an upper-middle income country, all of this occurred outside the G20/Paris Club DSSI framework. As background, in 2020, sharp drop in oil prices, a dramatic reduction in global demand, and the rapid spread of the COVID-19 virus gave rise to an urgent balance of payment crisis in Ecuador. As the COVID-19 shock roiled the financial markets in the first quarter of 2020, widening spreads on Ecuador's international bonds indicated effective loss of market access. While on March 24, Ecuador paid $325 million bond amortization payment, it chose to enter a grace period for $200 million in coupon payments in order to re-direct the money for health spending. It also announced it would initiate talks with commercial and official bilateral creditors in order to obtain debt relief. On the same day the IMF announced that negotiations were under way for a new program with Ecuador after the 2019 Extended Funds Facility was put on hold in February due to data inconsistencies found in the fiscal accounts. See here for an IIF assessment of external challenges for Ecuador.

On April 8 Ecuador launched a consent solicitation to holders of 10 global bonds totaling $19.2 billion, requesting deferral of $811 million in scheduled interest payments until August 15. This action precipitated

a credit downgrade from CC to C by Fitch on April 9. More than 90% of all bondholders and 82% in each series gave their consent by April 18, allowing the deal to be finalized through triggering of CACs. Such high bondholder approval in a very short time demonstrated that bondholders and sovereigns can reach collaborative solutions to imminent liquidity crisis in a relatively short time. The agreement was conditioned on the conclusion of an IMF staff level agreement by a specified date. This was another important market innovation and Ecuador's commitment to work with the IMF helped build trust with the bondholders. Subsequently, Fitch and S&P downgraded from C to restricted default (RD) and it was determined that credit default swaps (CDS) were triggered on April 27. In June, Ecuador received $644 million in emergency funds under the rapid financing instrument (RFI) from the IMF and $506 million in emergency loans and grants from the World Bank.

While the subsequent debt restructuring negotiations ended successfully, there were some complications along the way. Like in Argentina, the bondholders were fragmented into three different creditor committees, including: the Ad-hoc group, holding 45% of debt in aggregate, the Steering Committee, with holdings in excess of 25% and more than 35% in certain series and a third group of investors holding the 2024 notes. On July 6, Ecuador reached an agreement in principle on indicative commercial terms for a debt restructuring with the Ad hoc group. It was disclosed that the agreed terms were expected to produce: 1) debt relief exceeding $10 billion over the next 4 years and $6 billion more between 2025 and 2030; 2) a 42% reduction of Ecuador's average contractual coupon rate to 5.3%; 3) extension of the yield curve from 10 to 20 years; and 4) a nominal haircut of 9%. Similar to the April stand-still agreement, it included a condition that Ecuador should reach a new staff level agreement with the IMF by September 1. A week later, the Steering Committee issued a counterproposal.

On July 20, 2020, Ecuador formally launched a consent solicitation proposing to modify the terms of approximately $17.4 billion in bonds and a tender offer to exchange for a package of new bonds maturing in 2030, 2035 and 2040. The terms of the offer were identical to those of July 6 agreement in principle. The next day, the government publicly stated that it had strong support for its July 6 offer, and that the Ad Hoc Group had increased its support to more than 53%, with over/close to 50% in almost every individual series. It further noted that with additional support from outside the Ad Hoc Group, it had the support of almost 60%. Both the Steering Committee and the committee of 2024 holders publicly refused Ecuador's offer. With the exception of the 2024 bond, Ecuador's bonds all had the latest ICMA model clause that allows cross-series modification through single-limb aggregation (75% of total principal), and two-limb aggregation, requiring agreement by two-thirds of total principal and 50% of each series.

As was the case in Argentina's restructuring, certain parts of the tender offer raised concerns about the sovereign's interpretation of the CACs in a way that tipped the scale disproportionally in the borrower's favor. Additionally, the terms of the tender offer were such that bondholders who chose to tender would receive, in exchange for their current bonds, a combination of new bonds that mature in 2030, 2035, and 2040. In contrast, it made clear that non-tendering bondholders who got swept into the deal through the triggering of CACs would receive only the 2040 bonds, which had lower present value. Additionally, in lieu of repaying accrued and unpaid interest, only tendering bondholders would receive an additional bond for past due interest (the "PDI Bond") that would effectively give them back 86% of their accrued and unpaid interest, while non-tendering bondholders would get nothing. According to estimates, the difference in recovery value in present value terms between tendering and non-tendering bondholders would amount to 10-12 basis points. Bondholders were given till July 31, 2020 to tender bonds.

On July 29, two of the 25 institutional investors from the Steering Committee, filed a federal securities class action against Ecuador in the US District Court for the Southern District of New York seeking a preliminary injunction against Ecuador in relation to the consent solicitation and tender offer. Plaintiffs alleged that Ecuador's tender offer was "coercive" and in violation of the "no less favorable treatment provisions" of their bonds because it discriminates against non-tendering bondholders. They also alleged that Ecuador had falsely claimed that the negotiation process was transparent. In its response to the lawsuit, Ecuador stated that it "*disagrees with the contention"* by the plaintiffs *"which together hold a small minority of the total outstanding principal amount of the eligible bonds, that the invitation to exchange is 'coercive'*." On July 31, plaintiffs' motion was denied with the judge saying that the case was "unlikely to prevail" at trial. The previous day, Ecuador had extended the tender deadline till August 3.

In the end, creditors holding more than 98% of the bonds participated in the tender offer. Ecuador also agreed to add new refinements to the ICMA model CACs that largely eliminated the option to use the so-called "PacMan" strategy in the future. The new CAC refinements also address the use of "redesignation" by introducing a provision that a minimum of five business days' notice must be given to investors to revoke or change their votes, before any redesignation takes effect.

Apart from commercial debt, it has been reported that Ecuador is aiming to reprofile bilateral debt with China and obtain new loans for almost $ 2.4 billion. In early August, Ecuador reached an agreement with China Development Bank (CDB) to postpone $417 million in loan payments for a year. It has also been reported that Ecuador is negotiating for almost $2.4 billion in new Chinese loans. On August 28, IMF staff and the Ecuadorian authorities reached a staff-level agreement to support Ecuador's economic policies with a 27-month arrangement under a new EFF for about $6.5 billion, thus fulfilling the key precondition of the tender offer.

THE GAMBIA

The Gambia was able to exit from debt distress in late 2019 after it negotiated 5-year debt service deferrals from its bilateral and plurilateral creditors, saving $158 million on debt service falling due between 2020 and 2024. This is equivalent to 9% of 2019 GDP. The Gambia's external public debt stood at about $796 million at end-2019 (46% of GDP). Nearly two-thirds of The Gambia's external debt is owed, in equal proportions, to multilateral and so-called 'plurilateral' creditors. Non-Paris Club creditors hold the bulk of the debt owed to bilateral official creditors (about one quarter of total external debt), while the Paris Club debt represents only 0.1 percent of The Gambia's external debt and will be amortized in full by end-2020. In February 2020, the IMF's visit to The Gambia ended with a staff-level agreement on a 39-month-long Extended Credit Facility (ECF) program for about $48 million. Under the ECF, the Gambia is subject to strict external debt conditionality comprising of several commitments, including: (i) not to contract or guarantee non-concessional external debt (ii) to limit the amount of external concessional debt contracted or guaranteed to $190 million over 2020–23; and (iii) to limit the amount of such debt contracted or guaranteed in 2020 to US$60 million.

This was one of the first restructurings be largely conducted outside the Paris Club framework where so-called plurilateral creditors (i.e. lending institutions owned by multiple government stakeholders) comprised such a significant part of debt stock. As there is no formal definition of a multilateral, in the past the system relied on the application of the Paris Club's comparability of treatment vis-à-vis bilateral and commercial creditors to practically distinguish the multilateral creditors. However, reliance on this feature was not feasible in the case of The Gambia and the conclusion of the restructuring notwithstanding this factor was precedent-setting.

The COVID-19 pandemic has had very negative socioeconomic consequences for the country—GDP growth is expected to fall from 6% to 2.5% in 2020, according to the IMF. The restrictions placed during the pandemic halted tourism, disrupted trade, and reduced remittances. The country has limited options for fiscal, monetary, and financial buffers, and is at high risk for external and public debt distress, even as debt is deemed sustainable. The government of The Gambia is seeking additional support from the World Bank through its $10 million COVID-19 Emergency Response Project and from the IMF through its $21.2 million Rapid Credit Facility (RCF). Furthermore, the IMF approved $2.9 million in debt service relief under the Catastrophe Containment and Relief Trust (CCRT). The European Union and World Bank Social Safety Net have also disbursed $9.7 million and $6 million, respectively. Notably, the country has also requested debt service deferral under G20's Debt Service Suspension Initiative (DSSI), which could free up between $2-$7 million in additional funds—depending if private creditors and plurilateral credits are asked to participate alongside the bilateral creditors.

LEBANON

In March, facing unprecedented political and economic crisis, Lebanon failed to make over $1 billion in bond principal payments, setting the stage for an historic default on $32 billion of foreign currency bonds. Progress on debt restructuring has been stymied by political instability and failure to make progress with the IMF on a new financing arrangement (see here for a recent IIF assessment of prospects for Lebanon). A devastating explosion at Beirut's port in early August precipitated another round of popular demonstrations, leading to resignation of the government for a second time in less than a year. Mustapha Adib took over as the prime minister-designate on August 10 but resigned after failing to form a new government by the September 15 deadline. After two visits to Beirut, French President Macron has pushed for the imminent formation of a new government, "credible commitments" to reform and audits of central bank and financial system as preconditions for international aid. Central Bank audit was launched on September 9. Progress on the formation of a new government and the reforms is critical to unlocking the $11 billion financial package negotiated at the CEDRE conference in Paris in 2018, up to $ 8.5 billion from the IMF, and possibly more from GCC countries. While Lebanon is one of the most indebted countries in the world, the IIF projects that the government debt will fall from 175% of GDP in 2019 to around 115% of GDP in 2020. Foreign issued debt is only about 22% of the total government debt.

PUERTO RICO

Some three years since entering bankruptcy in May 2017, Puerto Rico's efforts to wrap up a debt restructuring of central government debt has been thwarted by COVID-19 pandemic. On February 9, the Financial Oversight and Management Board for Puerto Rico (FOMB) and the bondholders—announced a new agreement on the amended plan of adjustment related to $35 billion of Commonwealth's debt. The amended plan covered the debt of the central government (including $13 billion in General Obligation bonds), the Public Buildings Authority (PBA) and the Employees Retirement System. Holders of over $10.5 billion of bonds—representing 58% of aggregate GO and PBA claims—supported the agreement.

Debt restructuring and fiscal adjustment was put on hold in March as the COVID-19 shock took its toll on Puerto Rico's economy. According to the FOMB, Puerto Rico's economy, which has been in recession since 2006, contracted by 4% in the 2020 fiscal year as the fallout from the shut down and social distancing measures caused over $6 billion in economic damages through 2021 fiscal year. In May, the FOMB approved a new fiscal plan that estimates a modest fiscal surplus of $8 billion in the next 12 years, down from $23 billion previously expected. These new facts made it evident that the FOMB would have to renegotiate a new plan support agreement (PSA) with the creditors. In June, U.S. District Judge Laura Taylor Swain ruled that FOMB had until July 15 to present the new PSA and Plan of Debt Adjustment (POA). The deadline was extended till September 11 to allow the FOMB more time to negotiate with the creditors on a new PSA. On September 11 the FOMB reported to Judge Swain that they expected to know by October 25th whether they have an agreement for a new PSA. Before it could go into effect, the new PSA will need to be incorporated into the overall debt adjustment plan, requiring approval by Judge Swain. Additionally, approval is needed by Puerto Rico legislators who would have to pass a bill to issue new bonds. On August 8th the governor of Puerto Rico signed a debt issuance law that establishes limits on debt issuance used to finance current/operational fiscal deficit.

Puerto Rico restructured over a third of its central government bonded debt in February 2019, almost two years after triggering a bankruptcy-like process under the Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), a 2016 federal law designed to help the U.S. territory (which is ineligible for Chapter 9 bankruptcy) restructure its $120 billion in debt and pension liabilities. Restructuring of the $18 billion in Sales Tax Financing Corporation (COFINA) bonds was concluded in February 2019, reducing the obligation from $18 billion to $12 billion. Under PROMESA, a seven-member Financial Oversight and Management Board (FOMB) controls Puerto Rico's budget, laws and regulations. The debt restructuring mechanism that was created under PROMESA allows for debt negotiations and retroactive, single-limb CACs. The bonds are grouped together according to legal seniority and any restructuring agreement requires a two-thirds majority. FOMB also has the power to force a restructuring if bondholders and the government are unable to come to a voluntary agreement. PROMESA prohibits creditors from suing Puerto Rico for debt repayment.

VENEZUELA

The economic situation in Venezuela has continued to deteriorate as the combined effect of U.S. sanctions and the global decline in oil prices have brought oil production to the lowest level since 2003. Current U.S. sanctions prohibit issuance or trading of Venezuelan bonds. Furthermore, they prevent any U.S. nationals from discussing financial deals with targeted Venezuelan officials, including President Maduro- effectively ruling out any debt restructuring negotiations from taking place with the current administration in Caracas. Nevertheless, in September 2020, Venezuela's Finance Minister announced a new proposal to holders of defaulted sovereign, PDVSA and Electricidad de Caracas bonds, aiming to pave the way for an eventual restructuring. This proposal is a conditional offer for bondholders offering to suspend statutes of limitation clause contained in the bond agreements if they agree not to sue for non-payment or to not proceed with claims if a suit has already been filed. Investors have until October 13th to respond and must suspend all existing claims in international courts and are encouraged to seek permission from U.S. authorities to engage in a potential deal despite the sanctions. The deal only stands if bondholders who own more than 75% of the existing debt accept the offer. Subsequently, the attorney general appointed by opposition leader Juan Guaido issued a statement stating that the statute of limitations for New York law bonds is six years and that the conditions to activate the "prescriptions clause" (which would cut the statute of limitations period in half) have not been met.

ZAMBIA

On September 22, Zambia became one of the first DSSI-eligible borrowers to pursue debt service forbearance on its commercial debt. The country has launched consent solicitations directed at holders of three bonds due in 2022, 2024 and 2027, asking for deferral in interest payments from October 14, 2020 till April 14, 2021. Assuming it is approved by a quorum of bondholders in each series (set at two thirds for the 22s and 24s, and three quarters for 27s), it would allow deferral of four coupon payments amounting to $161 million. Thus far the response from the bondholder committee has been cautious. On September 30, the committee, which represents almost 40% of the country's bonds, issued a press release which declines to give a positive response to the consent solicitation request "*at this time given the absence of clarity on a number of issues*." The press release goes on to state that the members of the committee are "*ready to consider engaging with Zambia as part of a liability management exercise, which may include the provision of near-term debt relief,*" but that such exercise should be designed to provide "*full debt transparency*", "*clarity on the government's medium-term policy framework needed to restore fiscal sustainability, preferably with the support of an IMF program; and transparency on how the authorities intend to deal with other creditors to ensure inter-creditor equity*." The bondholder meeting is scheduled for October 20, with possible adjournment till November 3 if the quorum is not reached on the first vote. If there is no agreement reached by the second vote, Zambia could enter hard default upon the expiry of the 30-day grace period on the 2024 coupon payment on November 13.

The consent solicitation appears to be the first step towards a restructuring process. Indeed, in March 2020, Zambia announced it had hired debt advisers and that it was looking into conducting liability management of about $11 billion in external debt. In August, Zambia also negotiated debt service suspension with the Paris Club creditors under the aegis of the G20/Paris club DSSI. However, Paris Club debt is less than 1% of external debt stock and achieving more fiscal space is largely dependent on the results of the ongoing negotiations with Chinese creditors. According to JP Morgan, Zambia owes over $3 billion to Chinese creditors for non-concessional project loans. Earlier in the year, Zambia requested emergency financing assistance from the IMF Rapid Credit Facility, in addition to an earlier request in 2019 for broader economic reform program that hasn't yet materialized.

The COVID-19 pandemic pushed Zambia's economy into a severe recession in the first half of 2020, after the halt in economic activity at the end of 2019, caused by a severe drought. The IMF has forecasted growth at around -5% in 2020, as fiscal pressures have further increased (lower revenues and higher expenditures). The external sector was hit hard by sharply lower commodity prices and pandemic-induced fall in domestic demand. A drastic drop (25%) in prices for Zambia's dominant export, copper, exacerbated previous external financing pressures and dwindling FX reserves. Moreover, Zambia's kwacha slid to record lows in

August, down over 35%ytd, continuing the decline that saw the currency depreciate by 18% in 2019. Interest costs on external debt increased significantly due to the depreciation of the kwacha. Zambia's public debt has grown rapidly from 24% of GDP in 2012 to 78% of GDP in 2018—with a projected increase to 91.6% of GDP in 2019. External debt was estimated at 60% of GDP in 2019. The country's unsustainable debt burden is driven largely by high external borrowing costs and increasing amortization in coming years. Apart from Eurobonds, bilateral debt repayments constitute more than 50% of the total amortization over 2020-24—principal repayments on loans from bilateral lenders are expected to surpass $260 million this year. External debt amortization will reach $650 million in 2020—around 2.4 to 3% of GDP.

c. 2019 Annual Meeting of the Group of Trustees

Members of the Group of Trustees of the *Principles for Stable Capital Flows and Fair Debt Restructuring* meet once a year to review the progress being made on the implementation of the Principles within the framework of the international financial architecture.

The Trustees discussed the 2019 Report on the Implementation of the Principles presented to them by the Principles Consultative Group (PCG), which includes senior officials from emerging and mature market economies as well as senior bankers, investors and sovereign debt experts. The Trustees noted the significant build up in debt vulnerabilities globally against the backdrop of slowing global growth and increasing economic policy uncertainty. Debt sustainability is already at risk for some vulnerable low-income countries: for example, among the 36 countries that benefitted from debt relief under the 1996 Heavily Indebted Poor Country (HIPC) Initiative and the 2005 Multilateral Debt Relief Initiative (MDRI), total external and government debt have now reached their highest levels since 2005. The Trustees discussed country cases including Congo and Mozambique that highlight these risks, as well as Venezuela, Argentina and Barbados, observing that the composition of debt owed by many emerging and developing countries is becoming more complex, particularly given the rise in non-concessional debt and collateralized financing practices. A more diversified creditor base now includes a more varied spectrum of commercial lenders and new official creditors. Therefore, the Trustees highlight the importance of the voluntary guidelines underlying the Principles related to the importance of transparency, information disclosure and cooperation for early crisis prevention.

In this context, the Trustees also received an update on the private sector Voluntary Principles for Debt Transparency. They welcomed the G20 support expressed for the work on these new Principles in the Fukuoka and Osaka Communiques this year: "We support the work of the Institute of International Finance on the Voluntary Principles for Debt Transparency to improve debt transparency and sustainability of private financing and look forward to follow up." The Trustees offered guidance on the road ahead for the Voluntary Principles for Debt Transparency, and commended the progress made both by the Debt Transparency Working Group (DTWG) and by the Joint IFI/IIF Working Group on Operationalization of the Principles, including on identification of criteria and funding alternatives for a data repository. The Trustees urged the DTWG and the Joint IFI/IIF Working Group to collaborate closely and move quickly to provide the best possible framework for the new Principles.

Recognizing the voluntary nature of the Principles, the Trustees believe that once successfully implemented, the new Debt Transparency Principles will signal significant progress in sovereign debt markets and a notable change in current market practices. Greater transparency in sovereign debt markets is clearly consistent with the existing Principles for Stable Capital Flows, which highlight transparency as a foundational principle for both crisis prevention and crisis resolution. Therefore, it is envisaged that these Voluntary Principles for Debt Transparency should fall under the governance of the 2004 Principles and be overseen by the Group of Trustees. The Trustees agreed to consider different modalities for effective governance and advise the DTWG and the Joint IFI/IIF Working Group accordingly.

Box 3. Reviewing the Contractual Framework for Debt Restructuring

Over the last decade significant progress has been made in strengthening the market-based contractual framework for sovereign debt restructuring. In August 2014, following a period of public consultation, ICMA published a package of sovereign debt contract reforms, including new and updated CACs, a revised *pari passu* clause and a model creditor engagement clause. Together these three reforms marked one of the most significant advancements in the contractual framework for sovereign debt restructuring since the *Principles* were published in 2004. The updated CACs—which include a menu of voting procedures including two different options for aggregation of votes across series to secure creditor agreement for modification of payment terms—were widely welcomed as a means of facilitating collective action and avoiding disruption to sovereign debt restructurings that can arise from holdout litigation. Of the 2014 ICMA contract reforms, the updated CACs have proven to be the most influential. In 2020, the updated CACs have seen a first major test during debt restructurings in Argentina and Ecuador. Following is a brief review of the progress made on implementation of these contract reforms and an overview of outstanding issues, as well as recent proposals to further refine the CAC framework following the Argentina and Ecuador restructurings.

In 2015, the IIF—also a collaborator in the drafting process—endorsed the full package of the ICMA contract reforms and helped promote broad understanding of the reforms in the market, highlighting the benefits of full implementation. Issuers embraced the new contractual clauses relatively quickly, starting with a Kazakhstan Eurobond issued under English law in October 2014 ($2.5 billion) with the full package of ICMA contract reforms, including the creditor engagement clause. In November, Mexico followed with an issue under New York law, which included updated CACs and *pari passu* but left out the creditor engagement clause. On the official sector side, the G20 and the IMF Executive Board endorsed the updated CACs and *pari passu* only. In the 2015 Leaders' Communique, the G20 called on the IMF to actively promote their acceptance and to "*explore market-based ways to speed up their incorporation in the outstanding stock*."

Some six years later, evidence suggests that the updated model CACs and to a certain extent, the revised *pari passu* clause have become the market standard for international sovereign bonds. According to the IMF, over 90% of newly issued bonds (in terms of nominal principal) include the updated CACs. Furthermore, uptake under New York and English law has been roughly the same, a significant improvement over the results reported in the first year of implementation, when 92% of New York law issues included the updated CACs and only 75% under English law did. Most issuances with updated CACs have also included the modified *pari passu* clause, with a few exceptions.

However, as ubiquitous as the updated CACs have become in newly issued international government bonds that are governed by New York or English law, bonds issued in other jurisdictions (some 3% of all international bonds) do not include them. Most foreign-law bonds issued by state-owned enterprises (SOEs) and subnational governments also do not carry CACs. Given rapidly growing levels of sovereign and sub-sovereign debt worldwide (see the IIF Global Debt Monitor), this could lead to more protracted workouts in countries like Venezuela, where SOE debts comprise a significant portion of the debt stock being restructured. Additionally, the outstanding stock of bonds with older version CACs is still sizable, with much issued at long maturities. According to the IMF, some 50% of all international sovereign bonds do not include updated CACs, and over 30% of these have a remaining maturity of more than 10 years. Sovereigns have shown very little appetite for liability management operations (such as consent solicitations, bond buybacks or debt exchanges) that could help accelerate turnover of these bonds, primarily due to high transaction costs.

Moreover, inclusion of creditor engagement clauses has made less progress. In the first year of implementation only 20% of emerging market sovereign Eurobond issues included creditor engagement clauses, and these were almost all issued under English law (see the 2015 PCG Report). This can be attributed in part to the lack of endorsement by the IMF, as well as Mexico's influential role among Latin American issuers. While available data is limited, uptake of the creditor engagement clauses appears to remain modest—though slowly expanding, with issuers like Belize, Grenada, Mozambique and Barbados adopting a variation of the clause as part of recent debt exchanges.

The 2012 Addendum to Principles recommends that private creditors "*should organize themselves in a broadly based representative creditor committee as early as possible in the debt restructuring process, certainly before default*" and that "*early discussion is necessary between the representative private creditor committee and the sovereign debtor, in close consultation with the official sector*." Creditor engagement clauses provide clarity by setting out a sequence of actions to be followed by the sovereign debtor and its private creditors when the borrowing country is under stress, thus minimizing uncertainty and helping preserve the value of assets. However, some recent restructurings have seen the formation of multiple creditor committees, which has highlighted issues of inter-creditor equity. The ICMA creditor engagement clause—which was not present in the restructured bonds of either Argentina or Ecuador—provides a potential solution for fragmentation of creditor committees, stating that if more than one committee is formed, a steering group should be created from the various committees.

While the 2014 CACs have become a market standard for international bonds, the cases of Argentina and Ecuador have shown how they can be used in specific country cases. In both restructurings, the sovereigns chose not to use the innovative "single-limb" procedure which requires that the proposed modification be "uniformly applicable" to all affected series. In broad terms, the "uniformly applicable" modification was designed to ensure that each series receives the same offer or the ability to select from the same menu of instruments. However, the design remains untested in a real-life restructuring.

Furthermore, recent restructurings have put a spotlight on a number of issues around interpretation and the use of CACs by some sovereigns, prompting revisions in language that could become the new standard. Drafters of the 2014 CACs have noted that while CACs were designed to make it easier for a supermajority to bring along a minority of non-tendering bondholders, the final formulation was intended to strike a fine balance between creditor and debtor rights. However, in some recent restructurings, use of "redesignation" (by which the sovereign reserves the right to amend the composition of a pool of bonds designated for restructuring after the votes have been cast)—as well as the "PacMan" strategy of re-pooling the restructured bonds with holdouts—has raised concerns of gerrymandering. Furthermore, in both Argentina and Ecuador, sovereigns used CACs to give materially less favorable financial terms to non-tendering bondholders who were dragged along by the CACs. While both countries have put in contractual mitigants that will limit their use of similar tactics going forward, there are questions about how this could influence the use of 2014 CACs in the future by other countries. Industry discussion about the merits of additional reforms to the CAC framework—or alternatively issuance of formal guidance on best practices—are ongoing.

In sum, recent sovereign debt restructurings have shown that the existing contractual framework for market-based debt restructuring is broadly effective, aided by the market acceptance of the updated CACs. However, there are outstanding gaps, including the large outstanding stock of debt without 2014 CACs, as well as insufficient uptake of the creditor committee clause. However, the 2020 debt restructurings by Argentina and Ecuador have also revealed how CACs could be used in a manner which could undermine the delicate balance between debtor and creditors underpinning the CAC framework. In these cases, these issues were addressed, with the sovereign and the bondholders reaching agreements on necessary contractual modifications. Going forward, these modifications will be taken into account in a review of the 2014 ICMA CACs, either through issuance of updated contractual language or by issuance of supplementary guidance. As noted in the *Principles*, successful and timely sovereign debt restructuring is best achieved through a collaborative, good-faith process between a sovereign debtor and its creditors. While CACs were designed to minimize the chances of holdout creditors, it has always been recognized that safeguarding of minority creditor rights is important to preserving the integrity of the debt restructuring framework. To this end, greater acceptance of the ICMA creditor committee clause could help private creditors organize more efficiently.

III. Post-Covid-19 Response from the Official Sector and International Organizations

Response from the official sector and international organizations has been focused on alleviating the short-term liquidity challenge through deployment of emergency financing and through coordinated debt service suspension. The IMF, World Bank and the multilateral development banks have strongly increased their available resources for emergency financing and have already approved a large number of programs. In March, the World Bank and the IMF issued a joint statement to the G20 calling on official bilateral creditors to grant debt-service suspension to the world's poorest countries in order to help them cope with the devastating consequences of the COVID-19 pandemic. On April 15 the G20 Finance Ministers and Central Bank Governors Communiqué announced a joint agreement between the Paris Club and the G20 official bilateral creditors to implement the Debt Service Suspension Initiative (DSSI) for the world's poorest countries. It asked private creditors, working through the IIF, to voluntarily participate in the initiative on comparable terms.

a. Overview of the IMF Emergency Response

Since March 2020 the IMF has made available over $280 billion of its $1 trillion lending capacity to its member countries. In March, the IMF made available some $50 billion for low income and emerging market economies via its rapidly-disbursing emergency financing facilities, of which up to $10 billion was available to the poorest countries through the Rapid Credit Facility (RCF) at zero interest. A further tool that the IMF has deployed this year in response to the pandemic is its Rapid Financing Instrument (RFI), which provides rapid financial assistance to member countries with urgent balance of payments needs without the requirement of having a full IMF program in place. Access limits under emergency instruments (the RCF and RFI) were temporarily increased in April 2020 for a period of six months, from 50 to 100 percent of quota annually and from 100 to 150 percent of quota cumulatively. In late September, the IMF Executive Board approved the six-month extension of the temporary increase in access limits for emergency financing through April 6, 2021. As of August 31, 2020, 69 members had received financial support through the Fund's emergency financing instruments since the outbreak of the pandemic, totaling $29 billion. Out of this, 33 countries received a combined $6.2 billion under the RCF; 26 countries received $19.5 billion under RFI and 10 countries received $3.4 billion in blended RCF/RFI financing.

In April 2020, the IMF provided immediate debt service relief to 25 member LICs under the Catastrophe Containment and Relief Trust (CCRT) in response to the fallout from the pandemic, freeing up financial resources for medical and other emergency relief uses. CCRT funds are only available to 33 LICs eligible for concessional borrowing through the Poverty Reduction and Growth Trust (PRGT), whose annual per-capita gross income level is below the prevailing IDA operational cut off, or twice that cut-off for small states. The CCRT contains approximately SDR 360 million in funding destined for grant-based debt service relief, thanks to contributions from the UK, Japan, Germany, the Netherlands, Switzerland, Norway, China, Mexico, Sweden, and others. To facilitate support, in March the IMF Executive Board adopted changes to the CCRT, expanding the qualification criteria to cover the circumstances of a global pandemic and adapting support to focus on the most pressing needs. A second six-month tranche of debt relief was approved in October 2020 which will provide $227 million to 28 countries through April 13, 2021. Subject to the availability of sufficient donor funds, debt service relief could be provided for a total period of two years, through April 13, 2022, estimated at nearly SDR 680 ($959) million. The IMF has been fundraising to boost the CCRT's resources to up to SDR 1 billion ($1.4 billion) in order to combat COVID-19.

The IMF response to the pandemic has occurred against the backdrop of ongoing negotiations around Special Drawing Rights (SDR) allocations. During the 15th general review of quotas in February, the IMF board of governors approved a resolution that did not feature an increase of allocations, therefore excluding a redistribution of vote-shares in IMF quotas. While in the wake of the 2008 financial crisis, SDRs were expanded significantly, opposition by a key shareholder has been an impediment to taking similar action in 2020. However, in March the IMF approved a doubling of New Arrangements to Borrow and an extension of Bilateral Borrowing Agreements — which are the second and third lines of defense after quotas, respectively — beyond their expiry at end-2020. These actions should help preserve the IMF's lending

capacity of $1 trillion.

b. Multilateral Development Bank Response

In March, the World Bank Group approved $14 billion in rapid financing to support companies and countries in their public health responses to the COVID-19 pandemic. Of the total, the IFC is providing $8 billion to help private companies affected by the economic consequences of the crisis. IFC financing includes $2 billion from the Global Trade Finance Program, which should support SMEs integrated in global supply chains, as well as the Working Capital Solutions program, which delivered $2 billion in funding to emerging market banks so that these institutions could extend credit to help businesses compensate workers and pay bills. Within its overall envelope, the IFC is also providing $2 billion from its Real Sector Crisis Response Facility, which will offer loans to companies in service industries severely affected by the health crisis, the healthcare sector, infrastructure, manufacturing, and agriculture, and will make equity investments where necessary. The remaining $2 billion came from the IFC's Global Trade Liquidity Program and Critical Commodities Finance Program in order to facilitate risk-sharing with emerging market domestic banks. For its part, the World Bank provided $6 billion in emergency financing to bolster disease surveillance and health systems.

In the world's largest dollar-denominated social bond transaction to date, the African Development Bank (AfDB) launched a $3bn "Fight COVID-19" Social Bond in April. The offer was met with widespread investor support, as bids exceeded $4.6bn, a remarkable achievement given market volatility and given that this is the largest dollar benchmark the AfDB has ever issued. With leaders around the world under pressure to respond, the AfDB's landmark bond could open the door for sovereigns across both mature and emerging markets to issue COVID-19 focused social bonds. The OECD is coordinating work to elaborate guidelines to facilitate private sector financing of the Sustainable Development Goals (SDGs), which could see tried and tested green bond frameworks expanded to social bond categories such as pandemic or recovery bonds. Such instruments will be designed to avert the delayed disbursements of the World Bank's Pandemic Emergency Financing Facility, which are pandemic bonds established after the 2014 and 2017 Ebola outbreaks in Africa and which largely failed to trigger.

The World Bank, along with the IMF, is monitoring use of proceeds for the DSSI, while also taking steps to improve public debt transparency and to safeguard responsible borrowing. Borrowing countries have pledged to use resources from debt service relief to boost crisis-related health, social, and economic expenditures and to report public sector debt. Such transparency enhances debt sustainability assessments and public financial management practices. In the context of the DSSI, private creditors have suggested that the World Bank and other MDBs consider using their balance sheets to provide credit enhancements that would facilitate innovative debt relief solutions with sustainability components, though these proposals have yet to meet with MDB approval.

c. United Nations- UN Economic Commission for Africa Response

The UN Economic Commission for Africa (UNECA) has coordinated work with African finance ministers to call on IFIs in March to provide $100 billion in emergency funds, including suspending $44 million in interest payments on public sector debt. The request also asked for waivers on interest payments due to private sector creditors, for corporate bonds, lease payments, and trade credits. UNECA has also unveiled a proposal with the African Union for African countries to engage in a debt exchange of current commercial debt for new concessional borrowing. Both entities have proposed creating a special purpose vehicle (SPV) for this arrangement, potentially with guarantees from a MDB – benefitting from its high credit rating – and would ensure that the debt would be converted into new securities with longer maturity profiles and featuring lower coupons and a five-year grace period. Bondholder signoff would be required for this debt exchange to move forward. In early April, UNECA and the African Union made a formal request for a two-year debt service suspension from official bilateral creditors, though the DSSI has been formally agreed only through the end of 2020. In June, the UNECA requested that the IIF help develop a waiver from private

lenders stating that a request from sovereign borrowers for forbearance from official creditors would not constitute an event of default (which could otherwise be triggered by provisions in loan documentation). Accordingly, private creditors developed and published the new Template Waiver Letter Agreement on July 10. (See "IV-a" for more information)

d. G20/Paris Club Debt Service Suspension Initiative

On April 15 the G20 Finance Ministers and Central Bank Governors Communiqué officially announced agreement on coordinated debt relief for the poorest countries from the G20 official bilateral creditors. It allows eligible borrowers to pause debt repayments to official bilateral creditors until the end of the year, and then to repay that money over a four-year period. United Arab Emirates and Kuwait also announced they would participate in the initiative. China's involvement in the G20 initiative marks the first time it has participated in coordinated, multilateral global debt relief efforts.

While the communique called on the private creditors, working through the IIF, to participate in the initiative on comparable terms, participation of private creditors was clearly designated as voluntary and not a formal requirement for official sector debt relief. During the extraordinary virtual meeting of the Paris Club and the IIF held on April 30, both private and official creditors agreed to collaborate in support of the DSSI. The private creditors noted the complexity of achieving debt service suspension in a short time period but committed to exploring ways to advance the initiative on comparable terms, upon the specific request of borrowing countries. In light of the more diversified creditor base in affected countries, it was recognized that creditor coordination would be crucial.

Moody's put Ethiopia, Pakistan, Cameroon, Senegal and the Ivory Coast on review after they applied for G20/Paris Club DSSI, arguing that this raises the risk of losses for bondholders, because the G20 has called on private sector creditors to offer "comparable" relief.

As of mid-October 2020, 44 countries had applied for the DSSI, allowing them to delay a total of $5.3 billion in repayments due this year; this amounts to about half of the $11.5 billion owed to official bilateral creditors. China has reportedly reached agreement with half of the 20 LICs that have asked for debt restructuring. A September 1 Paris Club press release notes that 39 countries have requested to participate in DSSI from the Paris Club creditors and of these, 28 have already signed an MOU.

On October 14, the G20 announced that it would extend the DSSI period till June 30, 2021, adding that an extension through end-2021 could be considered pending further discussions around the 2021 IMF/WBG Spring meetings. The IIF estimates that an extension of the DSSI through the end of June 2021 could free up over $11 billion for in-scope countries, and a potential subsequent extension for the second half of the year could bring total relief up to $23 billion in 2021.

IV. Private Sector Response

Since the April 15th G20 Communiqué, which asked the IIF to serve as a principal point of contact, knowledge partner and clearinghouse to generate private sector feedback and support for the G20/Paris Club Debt Service Suspension Initiative (DSSI), the IIF has actively engaged private sector creditors, public sector officials, and civil society in robust discussion. As the impact of crisis accelerated, it quickly became apparent that integral part of implementation would be promoting alignment in approach across the public and private sectors, to ensure the collective response—as noted in the G20 communiqué—is as effective as possible. Towards this end, the IIF has been providing regular briefings on private sector perspectives addressed to the G20, the IMF, World Bank, Paris Club and UNECA, among others. These briefings have been informed by discussions of the IIF Committee on Sovereign Risk Management (CSRM), which now numbers over 200 members from more than 100 financial services firms worldwide. The IIF worked with private creditors to create a toolkit for voluntary implementation of the DSSI in cases where private creditors might be approached for relief by sovereign debtors. The IIF also facilitated a series of discussions with representatives of borrowing countries, allowing their views to be incorporated in the development of

this toolkit. First in the toolkit are the Terms of Reference, which offer a flexible template for in-scope borrowers and their private creditors to advance conversations and enable voluntary debt service suspension, on terms in line with official bilateral creditors. Secondly, the Template Waiver Letter Agreement addresses the problem of unintended defaults or cross defaults with respect to requests for forbearance from official creditors. Two additional DSSI execution tools are under development including a Framework Agreement for banks and Technical Guidance Note on consent solicitations for bonds. Feedback from CSRM members suggests that these new tools will prove very helpful in moving ahead with debt service suspension, as and when it is requested.

a. Toolkit for voluntary implementation of the DSSI by the private sector

In a May 1 letter addressed to the heads of the IMF, World Bank and Paris Club with copy to the G20, the IIF summarized preliminary work in building private sector support and outlining a potential approach to private sector participation in the DSSI. This letter also set out the complex landscape and wide range of creditors and borrowers, noting that a "one-size-fits-all" approach to the DSSI for private creditors would be challenging and proposing a private sector Terms of Reference as an alternative. It highlighted the challenges for private creditors to participating in the DSSI, which center on the difficulty of predefining net present value neutrality, the need for a case-by-case approach, fiduciary responsibilities and the credit ratings implications of private creditor participation in the DSSI—which could hamper future market access for sovereign borrowers asking for debt service suspension.

In May 28th letter to the G20 and the heads of the IMF, World Bank and Paris Club introduced the newly developed Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club Debt Service Suspension Initiative. These Terms of Reference, which set broad parameters applicable for all creditors, underscore the need to ensure liquidity for DSSI-eligible countries to ward off a genuine solvency crisis. They benefited greatly from discussions with the IMF, World Bank and Paris Club, thus providing a useful blueprint for future engagement. In this letter, it was noted that the debt service obligations to private creditors (both bondholders and lenders) tend to be concentrated in a subset of DSSI-eligible countries with market access. For private creditors to help maintain liquidity and avoid future solvency problems, market access at an acceptable cost must be preserved. Conversations with borrowing countries suggest they concur with this view, believing that their development financing objectives cannot be fully met via long-term reliance on official creditors and donors. The letter also highlighted early signs of market re-opening, with some improvement in borrowing conditions and lower borrowing costs.

In June, the UNECA requested that the IIF help develop a waiver from private lenders stating that a request from sovereign borrowers for forbearance from official creditors would not constitute an event of default (which could otherwise be triggered by provisions in loan documentation). Accordingly, private creditors developed and published the new Template Waiver Letter Agreement on July 10. This template was the result of intensive discussion with CSRM members, with borrowing countries, and guidance and support from the IMF and World Bank legal teams. While the legal documentation underlying the relevant debt arrangements made a "blanket" waiver unachievable, the CSRM members are supportive of the concept of a waiver. Borrowers will still need to make the requests for a waiver on a case by case basis as needed, but the Template Waiver Letter Agreement will streamline and simplify the process.

Two additional DSSI execution tools are under development including a **Framework Agreement for banks** and **Technical Guidance Note** on consent solicitations for bonds. The Framework Agreement creates a streamlined, market-based approach for banks and sovereign debtors to amend their loan contracts while addressing concerns about breaches of contract and cross-default risks. It includes a waiver element, a standstill element and an adherence mechanism. The Technical Guidance Note on consent solicitations provides guidance for amending existing bond terms to allow execution of debt service suspension These tools are another important expression of private creditors' wilingness to help with implementation of the debt service suspension, as and when it is requested.

After the G20 announcement of a 6-month extension to the DSSI, the IIF and private creditors have begun work on a similar extension to the Terms of Reference and additional tools to facilitate private sector

engagement with the DSSI. Finally, with the broader future debt sustainability challenges in mind, the IIF is bringing together leading academics, lawyers, private sector market practitioners, public sector experts and representatives of borrowing countries to help develop solutions for both liquidity and solvency problems. Such solutions may include contractual remedies, instruments with credit enhancements, and innovations in debt restructuring (for example, building in ESG considerations).

b. Qualitative assessment of private sector implementation of the DSSI

In response to requests by the Paris Club and the G20 for an assessment of private sector support for the G20 DSSI, the IIF held two formal surveys of the CSRM members. Survey responses represented a wide range of thoughtful and detailed responses, from both IIF member firms and non-member firms, including banks, asset managers and consultancies. Collectively these survey respondents account for nearly $25 trillion in assets under management and represent many of the largest global firms active in international debt markets. Below is an overview of key survey findings.

- **Toolkit now in place to facilitate private sector debt service suspension:** Referencing the G20 DSSI and the associated Terms of Reference developed by the IIF, most respondents believe that these Terms of Reference provide an adequate toolkit for voluntary participation in debt service suspension, though many commented that there was still a "lack of an NPV-neutral mechanism" for achieving debt service suspension. Some however noted the need for additional tools to facilitate execution, for both banks and bondholders, including guidance on consent solicitations. Nearly all respondents indicated that they would use or consider using the Terms of Reference if approached by a borrowing country for forbearance; some noted that case-by-case discussions would still be needed given specificities of loan contracts and individual country credit profiles.

- **Limited requests from borrowers**: While in June, surveyed private creditors had not received any formal requests for debt service suspension under the DSSI, results from the September survey revealed that out of the 17 survey participants, 4 private creditors have been approached by countries eligible for the DSSI requesting for forbearance on comparable terms to official creditors. The private sector Terms of Reference (TofR) have not been officially utilized in formal transaction thus far. Most respondents indicated that if asked, they would actively consider such requests and seek to help, using the private sector Terms of Reference developed by the IIF. Additionally, respondents noted that TofR have proved useful for education and outreach. Some respondents noted that they have received requests from borrowers under arrangements covered by export credit agencies (ECA). However, the official sector TofR were utilized in these transactions.

- In September, Zambia became one of the first DSSI-eligible borrowers to pursue debt service forbearance on its commercial debt. The country has launched consent solicitations directed at holders of three Eurobonds, asking for 6-month deferral in interest payments. A creditor committee of Zambia's bondholders has said they are ready to engage in good-faith efforts that will support a restoration of macroeconomic and debt sustainability (see section IIb for further information on Zambia). It has also been announced that Chad has requested a debt service suspension on its external debt owed to Glencore—the underwriter of a syndicated loan that includes about 20 commercial banks and asset managers. The official borrower is the state oil firm Societe des Hydrocarbures du Tchad (SHT) which borrowed almost $1.5 billion in 2014 to be repaid in oil cargo deliveries. This loan was restructured in 2015 and again in 2018. As part of its 2018 debt restructuring agreement with Glencore, SHT can ask for deferral of up to $75 million in debt payments during the period 2021-2026 assuming oil export receipts are lower than Glencore debt service, and oil prices are lower than $42 per barrel. There is constructive dialogue from lenders' perspective and they are ready to engage with the borrower

- **Need for a waiver with respect to requests for forbearance from official creditors:** The lenders surveyed reported that no borrowers have formally asked for a "waiver" that would

allow them to ask official creditors for forbearance without triggering an event of default/cross-default that could arise pursuant to the underlying loan documentation with such borrowers. However, some do report that they have had preliminary conversations with borrowers who are considering this action.

- **Private sector firms actively discussing ways to assist with debt service:** Most private sector creditors report being actively engaged in discussions on a variety of ways to provide assistance with debt service to DSSI-eligible countries—and/or to other vulnerable countries that have been hit hard by the COVID-19 pandemic. Many lenders are continuing to engage with sovereigns on their financing needs by continuing to disburse under existing loans for ongoing projects or by participating in new bond issues for a number of emerging markets, including some DSSI-eligible borrowers like Honduras. Others noted that they were "…actively involved in discussions with UNECA and the multilaterals on coming up with alternative and cheaper financing structures to help address what we believe is a liquidity rather than a solvency issue for the great majority of IDA countries." Some respondents underscored the importance of distinguishing between countries that are in a "pre-default to default stage (like Ecuador) from countries that have only a temporary loss of market access…for the latter group, (we) maintain the view that a temporary debt suspension carries more negative consequences than positive ones."

- **Continued support for infrastructure projects and COVID-related budget spending has been a priority:** Some lenders have continued to provide funding for key infrastructure projects that have been endorsed by multilateral agencies. For example, one lender reported that they are seeking to support DSSI-eligible countries fund their budget gap with a specific focus on the healthcare sector, working alongside multilaterals such as MIGA. Another lender has set up a sizable COVID-19 response fund that donates to relief efforts.

- **Growing number of requests for assistance from emerging market countries**: Over 25% of the September survey participants reported that they have received requests for debt service suspension from three middle-income countries not eligible for the DSSI.

    - In March 2020, **Ecuador** became the first emerging market country to successfully negotiate time-bound suspension on interest payments with bondholders through a good-faith, market-driven process. The debt service standstill provided a temporary cash flow relief allowing the country to re-direct resources for managing the Covid-19 outbreak and gave it time to plan for a more comprehensive debt restructuring and negotiations with the IMF for another program (see country section under IIb for more information).

    - In July, **Suriname** received an approval from a majority of the bondholders to amend the terms of its $125 million 2023 bond allowing it to push out the amortization schedule by six months. Under the agreement, the country has until December 2020 to pay the first principal repayment ($15 billion, which was originally due on June 30), unless it reaches a financing arrangement with the IMF by then, which would allow it to also capitalize the December 30 principal payment. Like in Ecuador, the bondholders and the sovereign were able to act fast to afford the country time to pursue further debt restructuring. In both cases, the bondholders negotiated contractual innovations that would encourage sovereign's collaboration with the IMF. In early October, Suriname announced it would be seeking a comprehensive restructuring of two Eurobonds in the aggregate of almost $700 million. In addition to the 2023 bond, it is seeking to restructure the $550 billion benchmark bond due in 2026, which has a $26 million coupon payment coming up in October.

    - In August, **Belize** also reached an agreement with its bondholders to amend payment terms on $526 million in international bonds due in 2034 The amendment defers and capitalizes quarterly interest payments due from Aug. 20 -Feb. 20 of 2021, without affecting the bonds' final maturity.

- **Bondholders are looking for ways to support sovereign borrowers, including via restructuring where needed:** Many of asset managers are participating in bondholder groups looking for ways to provide cash flow relief and in some cases working on comprehensive restructuring for countries that are experiencing solvency crisis.

- **Market access improving, albeit gradually:** Most of survey respondents felt that market access was improving for most DSSI-eligible countries, but that there was more improvement for non DSSI-eligible (but still vulnerable) countries. A number noted that the cost of borrowing was still relatively high. Many noted differentiations, e.g. "…improving for a handful of IDA countries, as some (Honduras, Mongolia, Senegal and Ivory Coast) have regained market access…at acceptable cost, while other countries (Kenya, Nigeria, Ghana) could potentially issue albeit at the high end of acceptable prices." For non DSSI-eligible countries, many survey participants noted that major central bank liquidity provision, particularly from the Fed, has been making market access less problematic.

V. Private Sector Debt Transparency Initiative

The COVID-19 pandemic has prompted a renewed focus on debt sustainability, particularly for the world's poorest and most vulnerable countries. In addition to the direct impact of the pandemic on health and fragile healthcare systems, declining revenues from exports, tourism and remittances present an ongoing threat to recovery in these countries, and to their ability to service and manage their debt. The G20 Debt Service Suspension Initiative (DSSI), which calls on both official and private creditors to offer forbearance to eligible countries that request it, has also underscored the key role of transparency in sovereign debt markets. In this context, the Terms of Reference for Voluntary Private Sector Participation in the G20/Paris Club Debt Service Suspension Initiative make an explicit call for adherence to the Voluntary Principles for Debt Transparency, developed in 2019 by the Institute of International Finance (IIF) Debt Transparency Working Group, with encouragement from official sector collaborators and a clear mandate from the IIF Board of Directors. While transparency and debt sustainability are important considerations across the spectrum of lenders, these new Voluntary Principles for Debt Transparency ("new Principles") are intended for use by private sector lenders. They are designed to complement G20 and other public sector initiatives (notably the G20 Operational Guidelines for Sustainable Financing) aimed at improving transparency on the part of public sector creditors and borrowers. As these new Principles build on the key guidelines of the *Principles for Stable Capital Flows and Fair Debt Restructuring*—including transparency and close debtor-creditor engagement—the PCG has closely followed their development and progress towards their implementation, including the search for data repository.

To identify a repository, a joint IFI/IIF Working Group on Implementation of the Voluntary Principles for Debt Transparency ("Working Group") including the IMF, World Bank and BIS was organized in early 2020. This Working Group recommended a partnership structure to house the Principles, with a data repository operating under an oversight body. One or more Secretariats would support this oversight body and the Principles themselves. The Working Group noted that the initiative will rely on donor funding for the administrative and technical aspects of running a data repository as well as the substantive and advocacy aspects of generating participation, creating a coherent governance and reporting system, and promoting use of the data. The Working Group recommended that the repository be housed at an international organization or IFI that has the credibility, capacity, and experience to maintain a permanent facility. In October 2020, the Organization for Economic Cooperation and Development (OECD) Secretariat made a proposal to host the data repository.

VI. 2020 EM issuance since Covid-19

Bond issuance among the 30 EM[1] countries tracked by the IIF topped $7.3 trillion by Q3 2020, up 8% from the same period in 2019 (see chart 2). Around $3.3 trillion is short-term debt, with maturities less than 1 year. While overall issuance is on record pace, the growth rate for long-term securities—with maturities greater than or equal to 1 year—has slowed from the double-digit pace observed in the last two years (nearly 1% this year vs. 24%yoy growth in 2019). Out of the $4 trillion of long-term debt, about $2.7 trillion of corporate and sovereign bonds were sold from April to September (post COVID-19 months) this year—broadly on par with the levels seen during the same period in 2019.

Sovereign borrowing gained momentum this year as COVID-19 pandemic disrupted economies and human lives. Sovereigns have issued about $2.5 trillion bonds and bills, or 35% of the total issuance activity (vs. 33% in 2019), out of which $1.6 trillion is long-term debt. The pace of sovereign bond issuance is a new record even if short-term securities are removed. China, India, Hong Kong, Argentina, Egypt, and South Korea are the top six sovereign issuers in 2020. During the COVID-19 pandemic, many sovereigns relied on domestic bond markets to fund sharp increases in budget deficits, although with improving global investor sentiment these borrowers could go to international markets. International gross bond issuance picked up in Q2 after stalling for short period in March and has surpassed the average and total of recent years—$183 billion in 2020ytd vs. $120 billion in 2019. The share of international sovereign bond issuance over total sovereign bond issuance has increased to near 11% in 2020 from just 4% in 2012. Issuers from most emerging market regions, especially high-yield issuers, are also leveraging lower costs and favorable maturities. Nearly $1,501 billion of sovereign bond issuance is either rated high-yield—non-investment grade or is non-rated. Moreover, around 17 countries[2] from the EM sample are rated as investment grade and so far, they have issued around $91 billion in 2020.

Lower commodity prices and the COVID-19 pandemic, via declines in trade and tourism, have hit EM economies hard, worsening already high debt levels, and raising concerns over upcoming repayments. Emerging market currencies also substantially depreciated this year raising concerns over higher interest payments. Some $4 trillion of EM bonds will come due through end-2021, with USD and EUR-denominated bonds accounting for nearly 10% of the total maturities. Countries that face large upcoming redemptions include China, Brazil, India, and South Korea. Many EM countries were cautious in both monetary and fiscal policy responses to the COVID-19 pandemic. Central banks had cut rate aggressively and introduced additional polices such as QE or FX liquidity support. So far, emerging market economies are at different stages of recovery—some have coped with the COVID-19 crisis better than others. Investor appetite for EM debt will remain robust despite uncertainty over sluggish global growth and recovery. In a low interest rate environment, investors turn to EM bonds as higher yields look more attractive. We expect emerging market bond issuance to hit another record level by end of 2020 as investors seek higher yields and issuers have higher financing needs.

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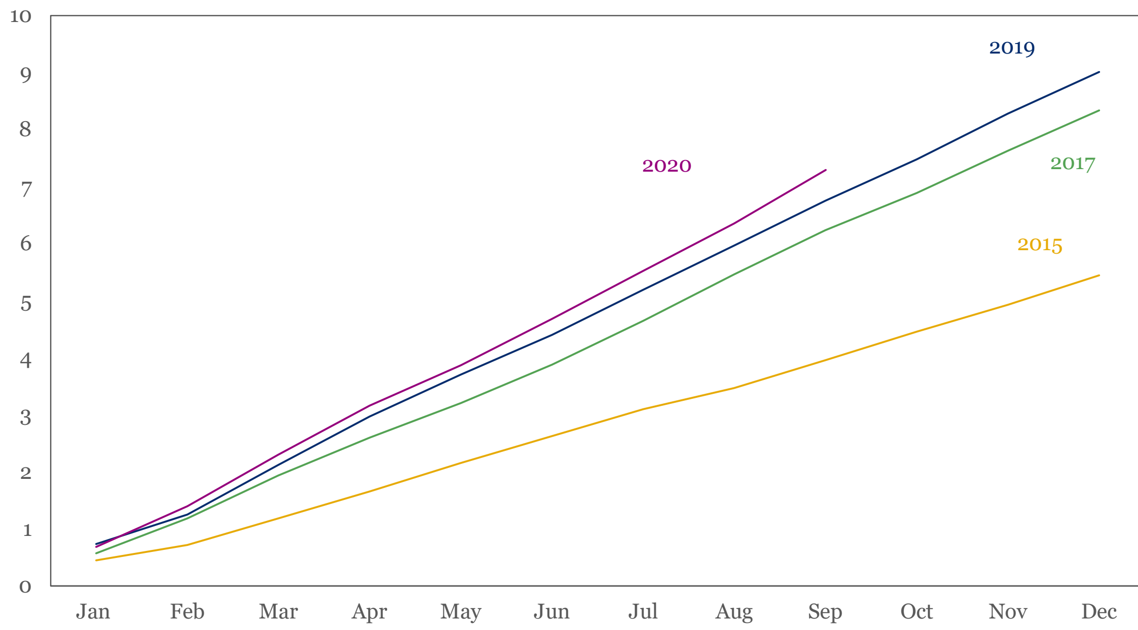
[1] IIF's emerging market dataset comprises of 30 countries (EM-30), including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Ghana, Hong Kong, Hungary, India, Indonesia, Israel, Kenya, Lebanon, Malaysia, Mexico, Nigeria, Pakistan, Philippines, Poland, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Thailand, Turkey, Ukraine and United Arab Emirates.

[2] includes Indonesia, Mexico, Poland, Malaysia, Saudi Arabia, Philippines, UAE, Colombia, Israel, Hungary, Chile, Hong Kong, South Korea, Thailand, Russia, Singapore, and Czech Republic

Chart 2. Gross EM Bond Issuance (includes corporate and sovereign bonds)



Source: Bloomberg, IIF.

Investor Relations and Data Transparency

In 2020, the impact of the COVID-19 shock on EM debt markets and economies has reinforced the key role of proactive sovereign communications in marshalling rapid policy response and mitigating sudden economic shocks. Sovereign investor relations (IR) programs provide an efficient infrastructure for direct communications between investors and country authorities. In countries with active IR offices, government debt managers and central bank officials have been a step ahead in being able to communicate better with their investor base, address concerns and questions, and make market-informed policies. As noted in Annex V, IR office is *a "one-stop shop" through which authorities can provide investors relevant data and information from the diversity of official sources, and investors can access relevant policymakers and provide policy feedback*. Effective IR programs help bridge the gap between investors and country authorities and reduce information asymmetries by making it possible for investors to become better informed about the current economic developments and prospects as well as the issuing country's key economic policies and objectives.

Since the launch of the *Principles for Stable Capital Flows and Fair Debt Restructuring* in 2004, a growing number of sovereign borrowers have recognized the importance of active IR programs and strong data dissemination practices as tools to strengthen their relationship with the investors. The emphasis of these programs on data and policy transparency and proactive dialogue between sovereign debt issuers and investors is fundamental to crisis prevention and mitigation. The *Principles* are built on good market practices by both issuers and investors and are complemented by the support of these practices from the international financial community, including the IMF and the World Bank. By helping sovereign debt issuers build trust and long-term relationships with their investors during periods of calm financial markets, IR programs have proven to be helpful instruments for authorities to navigate turbulent periods, as the Covid-19 crisis has demonstrated. As such, they are key elements of the *Principles*.

Emerging market sovereign debtors have made big improvements over the past several years in enhancing their IR and data dissemination practices. These practices cover a range of activities and communication channels, and they entail different levels of intensity and formality in dealing with investors. A number of the relatively more advanced emerging market countries with comparatively heavy reliance on bond issuance in international capital markets have found it useful to establish formal investor relations programs (IRPs). These programs involve the establishment of specialized units with expert and identifiable staff and dedicated official websites that facilitate communication and interaction with investors.

The IIF monitors and assesses the IR and data transparency practices of 38 emerging market and developing countries from different geographical regions, including sub-Saharan Africa. Since the first assessment in 2005, the number of countries with IRPs has increased from 5 to 16. In many cases, country officials have relied on the direct advice of the IIF staff in setting up their investor relations programs. The countries with IRPs are listed in Table 1.

The usefulness of effective IR practices and data transparency is not limited only to emerging market and developing economies. They can be equally useful to all sovereign debt issuers. Yet, in practice, very few advanced countries have formal IRPs as data and policy transparency is instead achieved through open communication and dialogue between the authorities of these countries and their investors—who tend to be predominantly financial institutions, institutional investors and large asset managers. Foreign investors are also increasing their exposure to emerging and frontier markets and to new issuers among developing countries. Among many other benefits, better disclosure and transparency help reduce funding costs for EM borrowers and improve access to capital markets (see for example the recent IMF Working Paper on this topic), benefitting the entire financial system. Additionally, it has been shown that IRPs were key to Ireland, Portugal and Cyprus regaining market access after the European Debt Crisis.

a. IIF Assessments of IR and Data Dissemination Practices

The IIF's deep involvement with investor relations and data transparency practices in emerging market economies dates back to the mid-1990s. Leveraging on its vast private sector membership, the IIF has developed a set of 20 criteria for the evaluation of IR practices and a set of 23 criteria for the evaluation of the data dissemination practices of emerging market sovereign debt issuers. The IR criteria are listed in Table 3. Each country is assigned a weighted score based on the number of criteria it meets and the weights of each of these criteria ranging from 0 to 3. Through 2015, scores were fulfilled in a binary fashion, wherein evidence of satisfaction of the criterion guaranteed full credit, while no evidence resulted in a zero [0] score. Starting in 2016, countries have been awarded partial credit in order to make the scorecard more granular while rewarding countries for incremental improvements. A detailed description of the evaluation criteria is provided in Appendices A and B, while the best practices for investor relations are summarized in Annex V.

Table 1
Active Investor Relations Programs

Country	IR Program Launching Year	Location
Mexico	1995	Ministry of Finance and Public Credit
Brazil	April 1999 2001	Central Bank of Brazil The National Treasury
The Philippines	July 2001	Central Bank of the Republic of the Philippines
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
Russian Federation	2016	Central Bank of Russia
Ukraine	2018	Ministry of Finance

The criteria used reflect the areas that are of high importance to investors. Out of the 20 criteria used for IR practices and data transparency, 7 carry a weight of 3 and include factors such as the existence of a formal investor relations unit with dedicated staff, subscription to the IMF's Special Data Dissemination Standards (SDDS), effective transparency of market-related data, and the availability of forward-looking policy information.

Starting with 2020, the assessment of data dissemination practices has been discontinued. However, the IIF continues to monitor selected data dissemination practices as reflected in the criteria 7 and 8 of the IR assessment ("effective data transparency of market relevant data" and "macroeconomic data presented in market-friendly format") Key parts of the assessment criteria for data dissemination practices have been prioritized, including: availability of time series data and the adoption of accrual accounting for central government finance statistics; and the availability of time series data on central government debt and external debt. The IIF will continue to monitor reporting of this data for periodicity (monthly for Central Government Operations and quarterly for Central Government Debt and total external debt) and for timeliness (1 month/quarter after the end of the reference period).

The IIF reviews regularly with private investors the relative importance of countries' investor relations and data transparency practices in their investment decisions. As in previous years, The IIF sought feedback from members of the IIF Council on Asset and Investment Management (CAIM) Working Group, the IIF Committee on Sovereign Risk Management (CSRM) and the private sector members of the PCG. This year there were record number of responses from 13 institutional investors, showing there is clear enthusiasm for interacting with sovereign borrowers. Below are some of the key findings from the investor surveys:

- Visiting government agency and/or IR websites and participating in conference calls are the two of the most commonly used vehicles for engaging with borrowers. Attending investor briefings comes in close second place.
- Over half of surveys participants report that data quality has a specific weight in their risk model, reinforcing the importance of greater debt and fiscal transparency for maintaining stable capital flows.
- Over 60% of investors responding say that they engage directly with IR staff or websites to assess risks or opportunities related to environmental, social and governance (ESG) factors. Many report that they have implemented ESG analysis as a regular part of their investment strategy.
- Investors are reporting that countries still need to provide more data around ESG factors. Among concrete items that could be disclosed, the following were all recommended:
    - Presentation of policy frameworks with specific strategies for environment and social goals
    - Targets and commitments on UN SDG progress and how they plan to finance it
    - Alignment with the Paris Agreement
    - Historical/recent trends in carbon and greenhouse gas emissions
    - Disclosure of national climate vulnerabilities
    - National plans on food security & reducing food inflation/volatility (for frontier markets)
    - Information around third party certification and third-party ESG ratings when available (e.g. MSCI ESG rating),
    - Information on past sovereign ESG issuances as well as the use of proceeds.
    - Transparency around the process that determines the eligibility of projects for which bond proceeds may be allocated as well as disbursement of funds in line with the offering documents.
    - Commitments to regular (at minimum annual) reporting on projects to which ESG bond funds have been allocated.
    - Information on what international institutions (e.g. UN, CBI, etc) the country is working with on the ESG front.

In response to the overwhelming investor demand for more ESG data, the IIF will consider communication around these factors as part of the annual IR assessment starting in 2021. In the last few years, the importance of ESG issues has been growing for EM sovereign debt markets. Credit rating agencies have been incorporating ESG factors in their credit assessments and the demand among institutional investors for investments with ESG features outstrips the supply. The global push for Sustainable Development Goals (SDGs) as well as the Covid-19 crisis have further reinforced the importance of transparency around ESG

factors.

Out of 38 countries covered by the IIF IR assessment, 25 responded to the 2020 IIF survey of sovereign investor relations practices. Over 50% of respondents reported that they are already providing some information about how ESG factors attribute to government bond programs, national priorities and progress towards global commitments. Over 75% of all respondents say that they provide information about progress on climate commitments and Sustainable Development Goals (SDG) on their country websites. However, in many cases the ESG information is spread out among different government agency websites and/or not available in English. Several countries have already established green or sustainability bond/sukuk frameworks, including: Chile, Hungary, Indonesia, Mexico, Malaysia, Poland, and Thailand. In 2020, Mexico became the first country in the world to issue a sovereign SDG bond under its SDG Sovereign Bond framework. South Korea issued a dollar-denominated green Eurobond in New York in 2019. Egypt issued its first sovereign green bond in October 2020. Meanwhile, Colombia reports that it is creating a framework for green bonds in collaboration with the development banks. Additionally, Peru is investigating the possibility of issuing a green/sustainable bond in the next three years.

b. 2020 IIF Assessments Results

The 2020 IIF assessment covers the IR and data transparency practices of 38 emerging markets that are most active in international debt capital markets. The full scoring of each country included in the IIF IR and data transparency index is shown in Table 2.

The total 2020 IR scores for 38 countries increased by 1% from the previous year, demonstrating the gradual efforts countries made in improving investor relations practices even in a challenging global environment. Overall, the 2020 rankings of IR and data transparency practices indicate that 21 out of the 38 countries attained high scores in the top quartile (32-42), increasing from the 2019 assessment by one country. Three countries scored in the lowest quartile (0-11), decreasing from the 2019 assessment by one country. This year, four countries scored the maximum score of 42, including: Indonesia, Mexico, Russian Federation and Turkey.

Most of the improvements were made in five evaluation criteria:

- **Active investor contact list**
  Tunisia, Malaysia and Costa Rica made the most improvement in this category. The first two increased by two points compared with 2019 and Costa Rica increased by one.
- **Archives of investor presentations and conference call materials available on website(s)**
  Two countries improved in this category compared with 2019. Thailand's score went up from 2 to 3 and Hungary, whose score improved from 0 to 3 points this year.
- **Forward-looking policy information available**
  Four countries successfully improved their scores under this category, including Malaysia, Ecuador, Croatia and Costa Rica
- **Investor conference call(s)**
  Hungary, Dominican Republic, and Egypt made improvements in this area.
- **Investor relations staff identifiable and reachable through website(s)**
  Romania, Malaysia, and Costa Rica made improvements in this area.

This year, Costa Rica carries the distinction of the most-improved country (+6 points) followed by Malaysia (+5.5), Hungary (+4), Morocco (+3) and Thailand (+2.5).

- **Costa Rica's** score increased from 25 to 31 due to improvements in several areas, including: making investor relations staff identifiable and reachable through website; having effective data transparency of market relevant data; making historical policy information available; making structural (legal, regulatory) information available; maintaining an active investor contact list; and for holding bilateral meetings with investors.
- **Malaysia's** score increased from 28 to 33.5 through making investor relations staff identifiable and reachable through website, having effective data transparency of market relevant data, providing forward-looking policy information, maintaining an active investor contact list and employing web-based communication with investors.
- **Hungary's** score increased from 36 to 40 due to holding investor conference calls and publishing archives of investor presentations and conference call materials on the website.
- **Morocco's** score increased from 30 to 33 through providing effective data transparency of market relevant data, having historical policy information available and for having senior policymakers accessible to investors.

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 and Policy Information			
		Presence of Institutionalized Investor Relations Activities	Investor Relations Staff Identifiable and Reachable through Website(s)	Central Bank and Government Agency Website(s) Available in English	Reciprocal Links to Central Bank, Ministry of Finance, and Other Government Agency Websites	Investors Able to Register for Website Subscription	Country Subscribes to SDDS	Effective Data Transparency of User-Relevant Data	Macro-economic Data Presented in User-Friendly Format	Historical Policy Information Available
	Weight	**2**	**3**	**3**	**1**	**1**	**3**	**3**	**2**	**2**
Country	**Score**									
Belize	**11.5**	0	0	3	0.5	1	0	1	1	1
Brazil (Treasury)	**40.5**	2	3	3	1	1	3	3	2	2
Bulgaria	**27**	0	0	3	1	1	3	3	2	2
Chile	**38.5**	2	3	3	0.5	1	3	3	2	2
China	**12.5**	0	0	3	0.5	0	3	1	1	1
Colombia	**40.5**	2	3	3	0.5	1	3	2	2	2
Costa Rica	**31**	1	2	0	1	1	3	2	2	1
Croatia	**18**	0	0	3	1	1	3	3	2	0
Dom. Rep.	**39**	2	3	3	1	1	0	3	2	2
Ecuador	**12**	0	0	1	0	0	3	2	2	0
Egypt	**27.5**	1	0	3	0	0	3	2	1	2
Gabon	**2**	0	0	0	0	0	0	1	0	0
Ghana	**20**	1	0	3	1	1	0	1	1	2
Hungary	**40**	2	3	3	0	1	3	3	2	2
Indonesia	**42**	2	3	3	1	1	3	3	2	2
Kenya	**13**	0	0	3	1	0	0	1	1	2
Korea, South	**32**	2	0	3	1	1	3	2	2	2
Lebanon	**28**	0	1.5	3	0.5	1	0	1	1	2
Malaysia	**33.5**	0	3	3	1	1	3	3	2	2
Mexico	**42**	2	3	3	1	1	3	3	2	2
Morocco	**33**	2	3	3	1	1	3	3	2	2
Nigeria	**25**	0	1	3	1	0.5	0	1	1	1
Pakistan	**20**	0	0	3	1	1	0	2	1	2
Panama	**32.5**	2	3	3	1	1	0	2	1	0
Peru	**41**	2	3	3	1	1	3	3	2	2
Philippines	**40.5**	2	3	3	1	1	3	2	2	2
Poland	**34.5**	2	1.5	3	1	0	3	3	2	2
Romania	**36.5**	1	3	3	1	1	3	2	1	2
Russia	**42**	2	3	3	1	1	3	3	2	2
South Africa	**38.5**	2	3	3	0.5	0	3	3	2	2
Tanzania	**6.5**	0	0	3	0.5	0	0	0	0	2
Thailand	**38.5**	2	1.5	3	1	1	3	3	2	2
Tunisia	**27**	1	0	1	1	1	3	2	2	2
Turkey	**42**	2	3	3	1	1	3	3	2	2
Ukraine	**40**	2	3	3	1	1	3	2	2	2
Uruguay	**39**	2	3	3	1	1	3	2	2	2
Vietnam	**4.5**	0	0	3	0.5	1	0	0	0	0
Zambia	**12**	0	0	3	0	0	0	0	0	0

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

Dissemination of Macroeconomic Data and Policy Information		Investor Relations Contact List	Feedback and Communication Channels							Regular Self-Assessment	
Forward-Looking Policy Information Available	Structural (Legal, Regulatory) Information Available	Active Investor Contact List	Web-Based Communication with Investors	Bilateral Meetings with Investors	Non-Deal Roadshow(s)	Investor Conference Call(s)	Archives of Investor Presentations and Conference Call Materials Available on Website(s)	Investor Feedback Reflected in Policy Decisions, Per Country	Senior Policymakers Accessible to Investors	Regular Self-Assessment of Investor Relations Activities	
3	2	3	2	1	1	1	3	3	2	1	
											Country
0	2	0	1	1	0	0	0	0	0	0	Belize
3	1	3	2	1	1	0.5	3	3	2	1	Brazil (Treasury)
3	2	1	1	1	0	0	0	3	1	0	Bulgaria
3	2	3	2	1	1	0	2	3	1	1	Chile
0	2	0	0	1	0	0	0	0	0	0	China
3	2	3	2	1	1	1	3	3	2	1	Colombia
1	1	3	2	1	0	1	3	3	2	1	Costa Rica
2	2	0	0	1	0	0	0	0	0	0	Croatia
3	2	3	2	1	1	1	3	3	2	1	Dom. Rep.
1	0	0	1	1	0	0	1	0	0	0	Ecuador
1.5	2	1	2	1	1	1	0	3	2	1	Egypt
0	0	0	0	1	0	0	0	0	0	0	Gabon
2	2	0	1	1	0	1	3	0	0	0	Ghana
3	2	3	2	1	1	1	3	3	2	0	Hungary
3	2	3	2	1	1	1	3	3	2	1	Indonesia
1	2	0	1	1	0	0	0	0	0	0	Kenya
3	2	3	1	1	1	0	0	3	1	1	Korea, South
3	1	3	2	1	1	0	1.5	3	2	0.5	Lebanon
1	2	3	2	1	1	0	0	3	2	0.5	Malaysia
3	2	3	2	1	1	1	3	3	2	1	Mexico
0	1	3	2	1	0.5	0	0	3	2	0.5	Morocco
0	2	3	2	1	1	0	1.5	3	2	1	Nigeria
1	2	0	0	1	1	0	0	3	2	0	Pakistan
2	2	3	2	1	0	1	3	3	2	0.5	Panama
3	2	3	2	1	1	0	3	3	2	1	Peru
3	2	3	2	1	1	0.5	3	3	2	1	Philippines
3	2	3	2	1	1	0	0	3	2	0	Poland
2	2	3	2	1	0.5	0	3	3	2	1	Romania
3	2	3	2	1	1	1	3	3	2	1	Russia
3	2	3	1	1	1	0	3	3	2	1	South Africa
0	0	0	1	0	0	0	0	0	0	0	Tanzania
2	2	3	2	1	1	0	3	3	2	1	Thailand
1	2	3	2	1	0	0	0	3	2	0	Tunisia
3	2	3	2	1	1	1	3	3	2	1	Turkey
2	2	3	2	1	1	1	3	3	2	1	Ukraine
2	1	3	2	1	1	1	3	3	2	1	Uruguay
0	0	0	0	0	0	0	0	0	0	0	Vietnam
1	2	3	1	1	0	0	0	0	1	0	Zambia

APPENDIX A.
EVALUATION CRITERIA FOR INVESTOR RELATIONS PROGRAMS

Described in this section are the 20 criteria that have been used to assess IR practices in this report, as well as the three key categories of data dissemination.

1. Presence of institutionalized IR activities

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. 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. Central bank and government agency websites available in English

An IRO website in English is sufficient to meet this criterion. If there is not an IRO website, both the Central Bank and Ministry of Finance (or Treasury) websites must be in English.

Ideally, the statistics agency website and other additional government agency websites will be published in English, but it is not a requirement to meet this criterion.

4. Reciprocal links to IRO, Central Bank, and Ministry of Finance websites

Key websites include the IRO, Central Bank, and Ministry of Finance (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 the debt management agency or national statistics office are recommended but not required to meet this criterion.

5. Investors able to register for website subscription

Investors can register on the IRO, Central Bank, or Ministry of Finance (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.

6. Country subscribes to SDDS

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.

7. 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. This criterion is directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 3-point scale, with the maximum points awarded to countries with the highest levels of data transparency.

8. Macroeconomic 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.

9. Historic policy information available

Investors are able to locate recent retrospective policy information for various areas of data per the IMF's SDDS.

10. 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. The presentation of the country's debt management strategy is encouraged but not required to meet this criterion.

11. Structural information available

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

12. 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.

13. 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.

14. Bilateral meetings with investors

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

15. Non-deal roadshow(s)

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

16. 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 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

criteria.

17. 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.

18. 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.

19. Senior policymakers' participation in IR activities

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.

20. Regular self-assessment of IR activities

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.

DATA DISSEMINATION PRACTICES

We have assessed countries on the basis of 23 elements of data dissemination. In addition to a country's subscription to the SDDS or General Data Dissemination System (GDDS), these elements capture six categories in the area of central government operations, eight categories in the area of central government debt, and eight categories in the external debt area. One critical area not covered in this report is financial sector information. Despite much progress—especially by the IMF and the World Bank—to assess financial sector vulnerabilities through Financial Sector Assessment Programs (FSAPs), few emerging markets have reporting systems in place that would allow regular dissemination of key financial sector indicators to the marketplace. At the same time, investors have expressed concern about the cross-country comparability of data, for example, due to a lack of uniform definition of key data. Therefore, we have not attempted to capture data release in this important area.

Central government operations

Elements of timeliness and periodicity have been evaluated against the prescribed and encouraged elements set by the SDDS and IIF standards for central government operations. Special emphasis has been placed on compliance with encouraged data provision in this area.

With the introduction of the IMF's Government Finance Statistics Manual in 2001 (GFSM 2001), countries have gradually incorporated an accrual- based reporting system for the presentation of central government operations data. However, this methodology is significantly more time consuming, and progress has been modest. Moreover, the statistical expertise varies across countries. In our assessments, we have documented the progress toward the adoption of the GFSM 2001.

We also have identified countries that have adopted a formal process toward implementation.

Central government debt

Individual assessments describe the current practices for the release of central government debt data

assessed against the prescribed and encouraged elements of the SDDS and IIF standards for central government debt. In addition, we have placed special emphasis on data dissemination practices for government debt service projections. The IMF and IIF standards encourage quarterly reporting of interest and amortization on medium- and long-term debt for the next four quarters and then annually thereafter. Similarly, reporting of data on short-term debt falling due on a quarterly basis is encouraged.

We have identified instances in which amortization schedules are presented in a timely fashion, either as part of a particular report or in a section of the fiscal authority's website. Whenever the information is not presented in periodic publications available to the public, we have benefited from direct consultation with agencies involved in the compilation of fiscal statistics. Indeed, several countries are ready to provide the calendar of future debt payments upon request.

External debt

Disclosure of external debt data can be evaluated based on the criteria established by the IMF's SDDS and IIF data standards. Most countries covered in this exercise follow the template set by the SDDS with three levels of disaggregation: (1) by institutional sector, (2) by short-term and long-term maturities on an original maturity basis, and (3) by instrument. We also have reviewed the dissemination practices for the provision of more comprehensive and timely information in areas that are not prescribed by those standards, including the availability of debt amortization schedules, the relevant breakdowns by institutional sector, and the timely availability of those schedules.

In the case of external debt amortization schedules, our assessment of dissemination practices shows that Central Banks usually prepare and release this information. However, provision of central government debt data varies considerably across countries; in some cases, analysts will search hard to locate the schedule. Also, countries rarely meet the IIF's encouraged element of providing quarterly data for at least the immediate 12-month period.

Some data categories, which are neither prescribed nor encouraged by the IMF's SDDS, are nevertheless provided on an ad hoc basis. For example, ratings agencies often use external debt ratios as indicators of debt sustainability. We have identified cases in which countries disclose this information on an ad hoc basis outside of the SDDS framework.

Additional aspects explored in the individual country assessments include the identification of resident holdings of public debt issued internationally, the non-resident holdings of public debt issued domestically, and the non-resident holdings of private debt issued domestically.

APPENDIX B.

DIFFERENCES BETWEEN INVESTOR RELATIONS OFFICES AND INVESTMENT PROMOTION AGENCIES

Investment Promotion Agencies (IPAs) and Investor Relations Offices (IROs) share many elements but are unique in purpose. Proactive investor relations (IR) practices by an IRO support investment in the public sector through the management of sovereign debt instruments, while IPAs promote private sector investment. One cannot be viewed as a substitute for the other; due to their unique approach and goals, it is recommended that IROs and IPAs function separately.

While they are both government agencies designed to provide information to investors, the information they provide and the investors they target are quite different. Both convey targeted information to prospective investors via websites and in response to investment inquiries.

IPAs help to facilitate foreign direct investment (FDI) by advertising investment opportunities to multinational corporations interested in making overseas investments. IPAs help match foreign private companies and local private companies. Operationally, IPAs utilize traditional marketing and advertising techniques such as slogans and branding.

In contrast, IROs are defined by their straightforward approach. IROs can be located within the Ministry of Finance or the Central Bank. If a country does not have an institutionalized IRO, the function of communicating with investors is typically carried out by the debt management office or the government agency responsible for sovereign debt management. IROs are designed to be an institutionalized communication channel between sovereign debt issuers and investors. It is important that the information conveyed to investors be delivered directly by government officials as opposed to third-party analysts. The purpose is to establish open two-way communication that promotes trust between the policymakers and investors.

On a day-to-day basis, IROs facilitate the communication between investors and country authorities. In addition, IROs play a broader role in increasing the stability of the financial system. The financial crises that have occurred over the past decade have galvanized actions by the international financial community to limit the severity and frequency of such crises, as well as to bolster the financial system more broadly. IROs have proven to be important pillars for helping avoid crises and are also crucial building blocks for a more effective approach to managing them.

An increasing number of emerging market authorities and market participants agree that IR programs are proven vehicles for advancing dialogue with investors, building on the delivery of data on key economic variables, and improving financial policies and performance. Regular, proactive strategies of IR programs enable country authorities to understand and communicate more effectively with their investor base, address concerns or questions, and shape market-informed policies.

Regular interaction with key officials regarding economic data, financial policies, and economic performance enables investors to make sound lending and investment decisions and provide feedback to country authorities. Such programs can also help authorities navigate through turbulent periods of market sentiment. When market conditions deteriorate, IROs allow policymakers to distinguish themselves within their asset class. Conversely, IROs strengthen the ability of investors to assess and manage risks.

Press and IR

The press office and IRO need to coordinate their activities because the message of both of these offices has to be consistent. A press office and an IRO can benefit from working closely together, as a press release from the press office may also be circulated by the IRO. A press release issued by the press office is not a substitute for IR. Sophisticated investors require a more detailed explanation of recent developments and policies. Following a press release, it is important for the IRO to be prepared to provide more detailed

information on request.

Several authorities have explored co-mingling press and IR functions. Press and IR should be kept separate as the job of the IRO is to establish two-way communication with investors. Press officers deliver information in only one direction and do not need to be tuned into the market. The scope of a press office is far-reaching, while the focus of an IRO is specific to debt investors.

ANNEX I.
THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING[3]

PREFACE

Since the mid-1990s, sovereign debtors and their private sector creditors have generally sought to put in place policies and procedures likely to promote and maintain sustained market access.

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

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

More recently in a significant step toward strengthening the resilience of the system, most debtors and their creditors have opted for the voluntary inclusion of collective action clauses (CACs) in international bond terms and conditions. These bonds have provided for amending payment terms through supermajority voting and for limiting precipitous legal actions through higher acceleration hurdles; a few bonds have also included provisions for debtor-creditor engagement.

In a growing number of cases, both issuers and creditors have pursued effective, two-way communication through robust investor relations programs (IRPs). This communication includes information and data on the issuer's key economic and financial policies and performance, with creditors providing feedback.

These Principles outline actions and behaviour of private sector creditors and emerging market sovereign debtors to promote and maintain stable private capital flows to emerging market economies in the context of growth and financial stability. They are based on extensive and broadly based discussions among private creditors and sovereign emerging market issuers. Because individual cases will invariably involve different circumstances, the Principles should be applied flexibly on a case-by-case basis, and are strictly voluntary. Accordingly, no party is legally bound by any of the provisions of these Principles, whether as a matter of contract, comity, or otherwise. Moreover, nothing in these Principles (or in any party's endorsement thereof) shall be deemed to constitute a waiver of any such party's legal rights.

The Principles build on the progress since the mid-1990s to identify effective measures in order to shore up crisis prevention and encourage their continued implementation. The Principles promote early crisis containment through information disclosure, debtor-creditor consultations, and course correction before

[3] During the annual meeting of the Group of Trustees on October 10, 2010, the Trustees agreed to broaden the applicability of the Principles to go beyond the traditional emerging market sovereign issuers to encompass on a voluntary basis all sovereign issuers, as well as cases of debt restructuring in which the state plays a major role in influencing the legal and other key parameters of debt restructuring, based on the recommendation of a PCG Working Group on the Applicability of the Principles. The Group of Trustees also agreed to drop the reference to emerging markets from the title of the Principles. For more details, see Annex II of the October 2010 Report of the PCG on the 2010 Implementation of the *Principles for Stable Capital Flows and Fair Debt Restructuring*.

problems become unmanageable. They also support creditor actions that can help to minimize market contagion. In cases where the debtor can no longer fulfil its payment obligations, the Principles outline a process for market-based restructuring based on negotiations between the borrowing country and its creditors that involve shared information, are conducted in good faith, and seek to achieve a fair outcome for all parties. Such a process maximizes the likelihood that market access will be restored as soon as possible under sustainable macroeconomic conditions.

PRINCIPLES

1. Transparency and Timely Flow of Information

General disclosure practice. Issuers should ensure through disclosure of relevant information that creditors are in a position to make informed assessments of their economic and financial situation, including overall levels of indebtedness. Such disclosure is important in order to establish a common understanding of the country's balance of payments outlook and to allow creditors to make informed and prudent risk management and investment decisions.

Specific disclosure practice. In the context of a restructuring, the debtor should disclose to all affected creditors maturity and interest rate structures of all external financial sovereign obligations, including the proposed treatment of such obligations; and the central aspects, including assumptions, of its economic policies and programs. The debtor should inform creditors regarding agreements reached with other creditors, the IMF, and the Paris Club, as appropriate. Confidentiality of material non-public information must be ensured.

2. Close Debtor-Creditor Dialogue and Cooperation to Avoid Restructuring

Regular dialogue. Debtors and creditors should engage in a regular dialogue regarding information and data on key economic and financial policies and performance. IRPs have emerged as a proven vehicle, and countries should implement such programs.

Best practices for investor relations. Communication techniques should include creating an investor relations office with a qualified core staff; disseminating accurate and timely data/information through e-mail or investor relations websites; establishing formal channels of communication between policymakers and investors through bilateral meetings, investor teleconferences, and videoconferences; and maintaining a comprehensive list of contact information for relevant market participants. Investors are encouraged to participate in IRPs and provide feedback on such information and data. Debtors and investors should collaborate to refine these techniques over time.

Policy action and feedback. Borrowing countries should implement economic and financial policies, including structural measures, so as to ensure macroeconomic stability, promote sustainable economic growth, and thereby bolster market confidence. It is vital that political support for these measures be developed. Countries should closely monitor the effectiveness of policies, strengthen them as necessary, and seek investor feedback as warranted.

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

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

Creditors' support of debtor reform efforts. As efforts to consult with investors and to upgrade policies take hold, the creditor community should consider, to the extent consistent with their business objectives and legal obligations, appropriate requests for the voluntary, temporary maintenance of trade and inter-bank advances, and/or the rollover of short-term maturities on public and private sector obligations, if necessary to support a borrowing country's efforts to avoid a broad debt restructuring. The prospects of a favorable response to such requests will be enhanced by the commitment to a strong adjustment program, but will also depend in part on continued interest payments on inter-bank advances and continued service of other debt.

3. Good-Faith Actions

Voluntary, good-faith process. When a restructuring becomes inevitable, debtors and creditors should 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. Debtors and creditors agree that timely good faith negotiations are the preferred course of action toward these goals, potentially limiting litigation risk. They should cooperate in order to identify the best means for, placing the country on a sustainable balance of payments path, while also preserving and protecting asset values during the restructuring process. In this context, debtors and creditors strongly encourage the IMF to implement fully its policies for lending into arrears to private creditors where IMF programs are in place, including the criteria for good-faith negotiations.

Sanctity of contracts. Subject to their voluntary amendment, contractual rights must remain fully enforceable to ensure the integrity of the negotiating and restructuring process. In cases where program negotiations with the IMF are underway or a program is in place, debtors and creditors rely upon the IMF in its traditional role as guardian of the system to support the debtor's reasonable efforts to avoid default.
Vehicles for restructurings. 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.

Creditor committee policies and practices. If a creditor committee is formed, it 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 analyze 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. Past experience also demonstrates that, when a creditor committee has been formed, debtors have borne the reasonable costs of a single creditor committee. Creditors and debtors agree jointly what constitute reasonable costs based on generally accepted practices.

Debtor and creditor actions during restructuring. Debtors should resume, to the extent feasible, partial debt service as a sign of good faith and resume full payment of principal and interest as conditions allow. Debtors and creditors recognize in that context that typically during a restructuring, trade lines are fully

serviced and maintained. Debtors should avoid additional exchange controls on outflows, except for temporary periods in exceptional circumstances. 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. Debtors should retain legal and/or financial advisors.

4. Fair Treatment

Avoiding unfair discrimination among affected creditors. The borrowing country should avoid unfair discrimination among affected creditors. This includes seeking rescheduling from all official bilateral creditors. In line with general practice, such credits as short-term trade related facilities and interbank advances should be excluded from the restructuring agreement and treated separately if needed.

Fairness of voting. Bonds, loans, and other financial instruments owned or controlled by the sovereign should not influence the outcome of a vote among creditors on a restructuring.

ANNEX II. ADDENDUM TO THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING[4]

This Addendum presents the recommendations of the Joint Public-Private Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution, endorsed by the Group of Trustees of the Principles on October 14, 2012, at its 2012 Annual Meeting in Tokyo. The Joint Committee was set up under the auspices of the Co-Chairs of the Group of Trustees in March 2012 to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere, draw appropriate lessons, and make recommendations on the strengthening of the existing framework for sovereign debt crisis prevention and resolution as embodied in the guidelines of the Principles for Stable Capital Flows and Fair Debt Restructuring. The recommendations included in the Addendum complement the Principles and provide amplification of the practical guidance for the implementation of the guidelines underlying the Principles to make them more practically relevant to the circumstances faced by mature market countries, including those that are members of currency unions.

1. Overall Assessment

The guidelines underlying the Principles for Stable Capital Flows and Fair Debt Restructuring remain an appropriate, relevant, and effective framework for sovereign debt crisis prevention and resolution. Their fundamental emphasis on sound policies and data and policy transparency by debtors is of critical importance in crisis prevention. Moreover, the underlying guidelines for voluntary, cooperative, market-based procedures for debtor-creditor dialogue and good-faith debt restructuring negotiations remain an essential cornerstone of sovereign debt crisis management and resolution and should continue to guide the interactions between sovereign issuers and their creditors. Such a cooperative approach would facilitate an early restoration of market access, which is of critical importance in achieving debt sustainability over time, and allow the official sector to gradually reduce its exceptional financial assistance to the countries under official sector-supported reform programs.

2. Data and Policy Transparency for Crisis Prevention

Sovereign debtors should pursue sound fiscal and growth-enhancing structural policies, consistent with macroeconomic and financial stability and public debt sustainability.

Sovereign debt issuers should ensure that they release on a timely basis comprehensive relevant data and other information related inter alia to their fiscal developments and debt positions (including, when appropriate, contingent liabilities) and on current and future policy plans. These data should be consistent with established accepted standards and norms (i.e. budget data should be released also on an accrual basis, not only cash basis) and verified by authorized domestic and regional agencies, especially with regard to their accuracy, comprehensiveness, and comparability over time.

[4] The Addendum to the Principles outlines the recommendation of the Joint Public-Private Committee on the Strengthening of the Framework for Sovereign Debt Crisis Prevention and Resolution, set up in March 2012 under the aegis of the four Co-Chairs of the Group of Trustees and the two Co-Chairs of the IIF Special Committee on Financial Crisis Prevention and Resolution to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere; draw appropriate lessons; and make recommendations for the strengthening of the existing framework for sovereign debt crisis prevention and resolution, as embodied in the guidelines of the Principles. The Group of Trustees endorsed the Addendum to the Principles at its Annual Meeting on October 14, 2012, in Tokyo, Japan. For the complete Joint Committee report and its recommendations, please refer to the 2012 Report on Implementation by the Principles Consultative Group.

Effective sovereign debt crisis prevention is a shared responsibility that requires—besides data and policy transparency and open dialogue with creditors by the sovereign debtors—sustained surveillance efforts by regional and international institutions and private sector groups, actions by regulatory agencies, accounting and other international standard setters, as well as vigilance and enhanced risk management by private creditors and market participants in general.

The effectiveness and timeliness of surveillance by regional and international institutions of the consistency between policy plans and actual execution and of national policies with regional commitments and undertakings for countries that are members of currency unions are critical for promoting sustainable policies and market confidence. Clarity and transparency of information on actual economic trends and prospects are essential for facilitating effective risk management by market participants and efficient functioning of sovereign debt markets.

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

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

Responsible and realistic assessments and timely analysis by ratings agencies can also provide useful complementary information to market participants, investors, and issuers and enhance crisis prevention.

3. Close Debtor-Creditor Dialogue and Cooperation for Crisis Prevention

Mature market country issuers should consider implementing the best practices for investor relations that have evolved. The adherence of emerging market borrowers to these best practices are reviewed annually by the IIF and summarized in the annual Implementation Report of the Principles issued by the Principles Consultative Group.

Enhancement of investor relations under Investor Relations Programs facilitates timely data and policy transparency and a regular dialogue between sovereign issuers and their creditors and establishes an effective channel of communication and feedback. The experience over the past few years has demonstrated the value and contribution of IRPs in enhancing market confidence and maintaining market access even during periods of market tensions and turbulence.

Sovereign debt issuers in both mature and emerging market countries should incorporate in new bond issues, denominated in a foreign or a common regional currency, CACs with appropriate aggregation clauses, with comprehensive coverage of their terms and conditions in the bond documentation and easy access to this information by all investors. Issuers of domestic bonds denominated in local currency may also consider such arrangements. Appropriately designed aggregation clauses would allow bond holders across all outstanding issues of government securities to collectively decide on whether to accept potential offers from issuers to modify existing bond terms and conditions. The use of CACs inclusive of aggregation clauses can facilitate voluntary debt restructuring by reducing the chances of a small minority of bond holders acquiring blocking positions in a bond series and imposing demands for preferential treatment.

4. Good-Faith Actions in Cases of Debt Restructuring

a. Voluntary Good-Faith Process

Good-faith negotiations remain the most effective framework for reaching voluntary debt restructuring agreements among sovereign debtors and their diversified private creditor community, particularly in the complex cases of mature market issuers that are members of currency unions. Such a framework has proved to be efficient in facilitating appropriate agreements on crisis resolution, while containing the adverse impact on market confidence and other disruptions and concerns caused by spillover and contagion risks. Sovereign issuers and their creditors should strive to reach and effectively implement voluntary agreements on a timely basis to help minimize adverse market reactions and contagion effects. In this context, debtors and creditors should be cognizant of the potential adverse effects of the interaction between sovereign debt and capital markets, to the detriment of the interests of all parties. With the increased sophistication, integration, and complexity of capital markets, for both emerging market and mature economy countries, the interaction between developments in sovereign debt markets, changes in the regulatory framework and banking system practices give rise to major dynamics with significant implications for credit expansion, risk practices, market access by sovereign debtors, and macroeconomic developments.

The dynamics and incentives for debtors and issuers to engage in good-faith negotiations are strongly influenced by the existing accounting and regulatory standards and their interaction across types of financial institutions and jurisdictions. The standard-setting bodies responsible for accounting and supervision rules, as well as the interpretation bodies, should be cognizant of the need to minimize inconsistencies between accounting and supervision practices and conflicts across jurisdictions and types of covered financial institutions.

The early restoration of market access is of critical importance in achieving debt sustainability over time. Early re-accessing of capital markets at reasonable costs is also essential for allowing sovereign debtors to reduce and eliminate their reliance on exceptional IMF financing and financial support from their official bilateral partners, such as is the case under currency unions or regional arrangements.

b. Debtor and Creditor Actions During Debt Restructuring

To facilitate good-faith negotiations, sovereign issuers, and regional institutions in case of regional arrangements, should engage in enhanced data and policy transparency and dialogue with their private creditors at an early stage, should a debt resolution become necessary. The early release of information on the scale of the adjustment needs and the range and scale of the envisaged corrective policies by the sovereign issuers themselves or in the context of adjustment programs supported by the IMF and/or regional institutions would help minimize adverse market reaction and contagion risks and facilitate continued or early resumption of market access. The sanctity of contracts should be respected. Modifications to these contracts should be avoided wherever possible as a matter of principle.

In the debt restructuring process, an early discussion is necessary between the representative private creditor committee and the sovereign debtor, in close consultation with the official sector, on the overall multi-year macroeconomic framework and objectives, including the broad fiscal policy targets and the underlying outlook for output growth and public debt under alternative assumptions on the debt restructuring. Such a discussion is important in facilitating an effective voluntary debt restructuring agreement on a fair burden sharing, thus promoting high private sector participation, restored market access, renewed output growth, and debt sustainability.

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

In this context, the IMF has a very important role to play by providing objective analysis and information on macroeconomic policies and prospects and on the sovereign debtor's medium-term funding needs, consistent with debt sustainability considerations.

c. Creditor Committee Policies and Practices

Private creditors should organize themselves in a broadly based representative creditor committee as early as possible in the debt restructuring process, certainly before debt default, which should be avoided if possible. Sovereign issuers should interact and engage in negotiations with their private creditors through the representative creditor committee and should consult with the creditor committee as part of the process of fulfilling the requirement under IMF policy of lending to debtors in arrears to make good-faith efforts to reach understandings with their creditors. Such a framework would be more conducive to reaching a voluntary agreement on debt restructuring and facilitate market access.

Private creditors that are members of the creditor committee negotiating with the sovereign debtor should abide by established ethical standards and inter alia respect the confidentiality of any material non-public information that may become available during this process and notably commit not to use confidential information from the negotiations for trading purposes.

This process will be aided in cases of countries that require financial assistance from multiple official bilateral creditors, as is usually the case for countries that are members of currency unions, by the formulation of timely and effective procedures for reaching understandings on the scale, terms, and conditionality of any envisaged financial assistance from these creditors so as to facilitate the negotiations between the sovereign debtor and the private creditor committee.

In line with the evolving practice, the sovereign debtor would be expected to cover reasonable costs incurred by a single private creditor committee for the legal and financial advisor fees, consistent with agreed parameters.

d. Tools for Debt Restructurings

Sovereign issuers and their creditors should introduce CACs and possibly other options to enhance the credit quality of the new debt instruments used under debt restructuring exercises so as to enhance the prospects for high voluntary creditor participation. Retroactive legal changes to unilaterally modify the terms and conditions of financial contracts may undermine the integrity of financial markets and the sanctity of contracts and should be avoided.

However, in exceptional cases and after a voluntary debt exchange agreement has been reached, such modifications of the governing legal framework to introduce a collective action mechanism on a timely basis with terms and thresholds consistent with market practices may be necessary in facilitating a voluntary debt

exchange and achieving a fair outcome for all bond holders.

5. Fair and Comparable Treatment of All Creditors

Sovereign issuers should treat fairly and provide comparable treatment to all creditors so as to avoid discrimination against any individual or groups of creditors. No creditor or creditor group should be excluded ex ante from participating in debt restructuring. Any exceptions to this principle should be discussed and agreed to among all creditors on the basis of adequate justification. Broad creditor participation in debt restructuring operations is essential to ensure a fair burden sharing, including the impact of the provision of new financial assistance, as well as to avoid any new or intensify existing subordination of the claims by some classes of creditors.

Fair treatment of all creditors is in the interest of both issuers and creditors. It lessens the burden on all creditors and, by avoiding discrimination, encourages creditors to participate voluntarily in debt resolution and minimizes any adverse impact on the investor demand for existing or new issues of sovereign debt by the issuer undergoing debt restructuring or similar debtors in the region or fellow members of currency unions. Reduced demand for sovereign debt by private investors, and/or delayed resumption of market access by the sovereign debtor due to subordination concerns, increase the potential burden on official creditors and international or regional institutions to provide financial support to the adjusting country in larger volume and/or over a longer period of time than would otherwise be necessary.

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ANNEX V. IIF BEST PRACTICES FOR INVESTOR RELATIONS[5]

This section expands on the best practices developed in the Institute of International Finance (IIF) Action Plan of 2002. The best practices build on the key elements of the 2002 list. A central feature of a successful investors relations program (IRP) is the country's direct communication with market participants. The "Strengthened Investor Relations Best Practices" highlights the importance of formal communication channels between countries' authorities and market participants. In the countries' efforts to formulate market-informed macroeconomic policies, IR provides the opportunity to obtain investors' feedback in the formulation of economic policies. The new best practices also stress the need for continuous self-assessment. These best practices incorporate the following elements:

IRO/IR Staff

The Investor Relations Office (IRO) is the first and formal point of contact between market participants and authorities. It is a "one-stop shop" through which authorities can provide investors relevant data and information from the diversity of official sources, and investors can access relevant policymakers and provide policy feedback. It is important to have a designated IR officer, or IRO; however, the location of the office is not important (i.e., within the Treasury, Central Bank, or Ministry of Finance).

The job of the IRO staff is a dynamic one. The staff:

- Facilitate two-way communication channels with investors through emails, conference calls, and the IR website.
- Brief senior policymakers about market feedback and concerns, overall market sentiment with respect to asset class and general global environment, and anticipated market reactions to policy changes under consideration.
- Disseminate relevant macroeconomic data and policy information (see below) to market participants and answer questions about the data, information, and other related issues.
- Coordinate access of data and information from various official institutions and develop a network of officers in various government agencies and the Central Bank who can answer investor queries.
- Coordinate access of market participants to senior policymakers.
- Coordinate internally the country's "message" and convey this message to investors.
- Present a coordinated and streamlined message and explain any changes in policies or data.
- Maintain credibility by acknowledging weaknesses in policies and the economic situation at investor briefings but should not serve as an advertising campaign for the government.

Both corporate and sovereign IR officials have identified proximity to senior policymakers as one of the most crucial aspects of an IRO. Commitment by senior policymakers at the highest level is crucial to the effective functioning of an IRO. At the same time, it is important that the IRO and its staff be insulated from changes in the political environment.

The core staff should have an understanding of market practices as well as economic policies and should be able to articulate those to both policymakers and investors. Regular contacts with investors also help the IRO staff develop a "fabric of trust" and anticipate and reduce vulnerability to shifts in market perception. In addition, regular use of outside market sources should enable IRO staff to gauge investor perceptions and shape an effective communication strategy. As investor confidence begins to slip, more direct involvement of senior policymakers in the IR process may be required.

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[5] The Strengthened Investor Relations Best Practices are presented in the report *Investor Relations: An Approach to Effective Communication and Enhanced Transparency-2005 Assessment of Key Borrowing Countries*, published by the Institute of International Finance in December 2005.

IR Website

All IRPs should have, as an essential component, a regularly updated, state-of-the-art website.

The IR website is a vehicle for providing relevant data and information to investors in a user-friendly format. It is a tool to most efficiently convey a country's policy objectives to the market with an option for seeking feedback and answering questions. It enables IRO staff to survey investors regarding future policy direction or to conduct self-assessments. To be effective, an IR website needs to present information simply and in a format that is well-organized, user-friendly, and easy to navigate. It should have the following components:

- Information on economic data and policies as defined below. These data should be in a format that can be manipulated by investors.
- Archived PowerPoint presentations or audio/video streaming of investor teleconferences or videoconferences.
- Links to websites for various official agencies and reciprocal links to their own website on those agencies' sites.
- Registration for investors who would like to be included in IR activities.
- Frequently asked questions (FAQs).
- Contact information for the IRO and relevant IR staff.

Dissemination of Macroeconomic Data and Policy Information

The IRO is responsible for coordinating and collecting market-relevant data and information to be disseminated to investors through the IR website or by email to an investor contact list. To be effective, the IR staff should execute this function using the following operating principles:

- **Timely and regular dissemination data releases and policy information**. Use a release calendar to notify the market of upcoming releases well in advance. This will help dispel market rumors that may emerge from lack of information.
- **Limited general information**. Rather, provide specific, tailored interpretations that give insights into the information. This is particularly important when the information is negative or during difficult circumstances arising from higher risk aversion by market participants or challenging domestic economic or political conditions.
- **Clear and user-friendly format**. Provide data in a Microsoft Excel format that can be manipulated, as opposed to providing PDF and Word formats. In addition, present data in a time series of at least two years, as opposed to just current data and previous period data. The highest level of "market-friendliness" is the ability for investors to specify parameters such as time period and currency to obtain tailor-made time series that can be downloaded into Excel. Quality data in categories most useful to the market are preferred over large quantities of data that are less useful. In terms of data provision, special efforts should be made regarding forward-looking information. The IRO should "defend" or explain forecasts provided in a timely manner. IROs should let investors know if there have been any changes in the technical definitions of data or revisions made to the data.

The following types of information—core statistics for fundamental economic analysis—should be disseminated regularly to investors through the IR website or to a comprehensive "investor list" via email notification:

- **Data on economic performance** based on the international data standards as they pertain to the International Monetary Fund's (IMF's) encouraged special data dissemination standard (SDDS). This requires timely provision of statistics of the real sector as well as of the fiscal, external, and financial sector statistics. These data should be supplemented as necessary by methodological notes. The IRO website should contain an indexed archive of the data or links to other government sites where the data are available.
- **Data for the 15 core indicators for financial sector soundness as identified by the IMF.** The IRO website also should contain an indexed archive of this information.

- **Forward-looking information on economic policies** such as budget projections, monetary policy targets, and structural factors (e.g., legal, regulatory, governance frameworks) supported by the data as appropriate. The IRO website also should contain an indexed archive of this information.

Additional Key Data

Market participants have highlighted the crucial importance of the availability of market-relevant data not currently prescribed by the SDDS but crucial for adequate economic assessment in three key areas: (1) central government operations, (2) central government debt, and (3) external debt. A detailed description of the encouraged and prescribed elements of these data is provided by the IMF and IIF standards.

- **Central government operations**. Tracking data for central government operations allows for a more timely analysis of a country's fiscal position than general government or public sector data.

- **Central government debt**. The assessment of debt sustainability is an integral feature of the country risk assessment. Disclosure of debt service schedules and currency breakdowns are needed to provide a more accurate picture of countries' future payment obligations. Countries also are encouraged to disseminate information that reflects liabilities of the central government in a comprehensive fashion and, where relevant, debt of other entities that is guaranteed by the central government. Disclosure of such information can help identify fiscal risks under different scenarios at an early stage.

- **External debt**. As demonstrated by previous crises, a country's debt profile can influence its resilience to external shocks. The availability of assets and liabilities of the private and public sector held by non-residents provides a picture of potential balance sheet vulnerabilities in domestic sectors. To carry out an adequate assessment of a country's international position, investors attach importance to the availability of non-resident holdings of private and public debt issued domestically as well as the resident holdings of external debt issued internationally.

IR Contact List

The IRO should develop and maintain a comprehensive list of contact information for investors, analysts, rating agencies, and other market participants who regularly track the country. This list should be supplemented with contact information for institutions that have key relationships with local financial institutions. The list should be maintained regularly and can be enhanced to target specific investors, if appropriate. Countries should maintain comprehensive contact lists so that they know, at any given time, who their investors are and so can evaluate how certain types of creditors will behave during times of vulnerability.

Feedback and Communication Channels

Feedback mechanisms are essential to foster two-way communication between investors and policymakers. Formal, regular channels should be created for responding to questions from investors, encouraging feedback about concerns, and communicating this information to key policymakers to enable them to make market-informed policy decisions.

These channels could be established through:

- Teleconferences or webcasts with investors.
- Bilateral meetings between investors and senior policymakers.
- Phone or email contacts via the IRO.
- Interactive deal/non-deal roadshows.

Teleconferences or Internet-based webcasts should be led by senior "decision makers" such as the undersecretary of finance or deputy governor of the Central Bank and can be moderated by the head of the IRO. Teleconferences/webcasts on key economic data and policies should be conducted on a quarterly basis, at a minimum. In addition, issue-oriented conference calls that are not part of the regular framework can help address questions and dispel rumors related to specific events or policy decisions.

Investors should be alerted about upcoming teleconferences/webcasts via email and should be provided with relevant information in advance to facilitate feedback and questions and to enable policymakers to focus on key issues. Policymakers should understand and communicate in the "language" of the investor community. Presentations should be uncomplicated and "forward-looking." Teleconferences and webcasts should be recorded for replay, and any associated material provided in advance to investors should be archived on the IRO website. To provide a level playing field, policymakers should provide the same information to all investors.

Investors value face-to-face interaction with senior policymakers through bilateral meetings. They should be able to directly contact **IRO staff via email or phone** to ask specific questions or to arrange meetings with senior policymakers. If the IRO staff is unable to process the request directly, it should coordinate with counterparts in other government agencies, ensuring that it can respond to investors in a timely manner. Non-deal roadshows to key financial capitals (conducted on a semi-annual basis or as opportunities arise) also are an important tool to foster dialogue. High-level interactions become even more important when a country faces difficult times.

Times of Diminishing Market Confidence

Issuers who support the Principles agree that countries accustomed to dealing proactively with market participants will have a head start in stepping up the consultation process with market participants in response to signs of eroding market confidence. Such swings in market sentiment may be attributed to challenging economic and political prospects or contagion from developments in other emerging markets.

As market confidence begins to diminish, authorities should intensify consultations with market participants. IR staff can help deflect contagion by providing investors with a better understanding of policy goals and prospects, respond to investor inquiries, and in effect help investors differentiate among countries within the same asset class. IRO staff are capable of independently responding to contagion risk, in contrast to government polices put in place under challenging conditions that require the support of their authors. In cases where challenging domestic conditions exist, the involvement of senior policymakers in the IR process is essential to adding credibility to policies. Under these circumstances, policymakers at the most senior level should make exceptional efforts to help alleviate market uncertainty by explaining the rationale of economic measures undertaken and demonstrate their preparedness to take market feedback into account when formulating additional action. The frequency of economic data and policy information provided to investors should be maintained or intensified—not reduced.

Teleconferences or webcasts with investors should become more frequent and led directly by finance ministers, Central Bank governors, or other senior policy officials as necessary. In such circumstances, an appropriate tool for engaging in a direct dialogue with investors may be through interactive non-deal roadshows in key financial capitals. The roadshow should be conducted by senior policymakers from all appropriate official agencies.

Regular Self-Assessment

IROs should conduct annual assessments to ensure they are providing the best possible services to policymakers and investors, including providing timely, accurate, and relevant information, reaching all targeted investor groups, receiving and effectively processing feedback, and using the most optimal technology to reach out to investors. IRO staff can conduct self-assessments or use outside consultants such as the IIF's Sovereign Investor Relations Advisory Service (SIRAS). Investor surveys on the IRO website or to the investor contact list also would be useful. To be effective, IRO activities can be benchmarked against

IIF IR best practices or other guideposts, such as corporate IRO best practices.

Press and IR

Several authorities have explored co-mingling press and IR functions in a single IRO. While the thrust of these functions is similar, as they both involve communicating with the external environment, the key differences between them provide convincing arguments that they should be kept separate.

- **Audience**. IR staff must deal daily with market participants who track a country's economic performance and policies on a regular basis. These investors and creditors are sophisticated in their knowledge, and they demand specific detail about the environment and outlook for economic policies and data. The press, on the other hand, is more interested in "big-picture" information that would appeal to its own audience rather than in technical details.

- **Content**. Investors require market-relevant information or data on economic policies that conform to international standards, forward-looking information on economic policies such as budget projections and monetary policy targets, and information on legal and regulatory frameworks. This information must be tailored to reflect the different requirements of various investor groups, such as bondholders, in both domestic and international capital markets, as well as equity investors. Press content focuses more on broad issues related to economic policy or political developments that do not require technical explanation or a detailed understanding of policy formulation.

- **Staff**. The skill set of IR staff differs significantly from that of press relations staff. Most importantly, to effectively communicate with market participants, IR officers must be able to speak in the language of the market (i.e., have an in-depth technical understanding not only of a country's economic performance and policies but also of how markets operate). They must be able to answer investor queries and provide market feedback to senior policymakers. While press relations staff must have a basic understanding of economic performance and policies, their skills should mostly be focused on public relations and dealing with press contacts, as well as "managing" both positive and negative political developments.

ANNEX VI.

Executive Summary—IIF BEST PRACTICES FOR FORMATION AND OPERATION OF CREDITOR COMMITTEES

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"2) 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 favoured 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"2) 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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