Principles for Stable Capital Flows and Fair Debt Restructuring

Report on Implementation by the Principles Consultative Group

With Comprehensive Update on Investor Relations Programs and Data Transparency

October 2010

Transparency Cooperation Good Faith Fair Treatment

Report of the Principles Consultative Group (PCG) on the 2010 Implementation of the Principles for Stable Capital Flows and Fair Debt Restructuring

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I. Overview

Over the past year, there has been a much better economic performance by emerging markets relative to developed economies. After a slowdown in 2008, output growth in emerging markets, particularly in Asia and Latin America, accelerated during 2009 and the first half of 2010, serving as the main engine of global recovery. In parallel, after a significant net outflow during the period from September 2008 to March 2009, net private capital flows to emerging markets recovered steadily until April 2010, boosted by the stronger growth prospects and the positive interest rate differentials relative to mature economies. Notwithstanding the strong performance of emerging markets as a group, there were a few cases of debt-servicing difficulties by sovereigns and, in a few countries, domestically important private debtors that have been intervened by their sovereigns, leading to the opening of debt restructuring discussions with their private external creditors.

With the resumption of global recovery in the second half of 2009, supported by unprecedented monetary and fiscal stimuli, financial institutions in mature economies have begun to gradually repair their balance sheets, helped by capital raising and a resumption of profits from trading and investment banking activities. However, the timid optimism about the global growth outlook and the improved market confidence have been interrupted since April 2010 by intensified concerns about sovereign debt sustainability and fiscal consolidation in mature economies—most notably in some Euro Area countries. This has spilled over to concerns about bank balance sheets in the Euro Area, leading to renewed uncertainty and risk aversion and threatening the hard-won progress in global recovery. In addition, market concerns have arisen over the faltering U.S. economic growth and lack of credit flows in the U.S. economy to support the recovery. Market attention has shifted to the likely timing and scale of unwinding of fiscal and monetary policy support and the associated implications for economic activity, amid concerns about coordination among major countries on economic policies.

The Principles Consultative Group (PCG), which includes senior officials from emerging economies as well as senior bankers and investors, continued monitoring global capital market developments during the recovery in global economic activity and subsequent strains in mature markets, assessing the implications for emerging markets, and providing them with feedback on policies, prospects, and adjustment needs.

The Principles incorporate voluntary, market-based, flexible guidelines for the behavior of sovereign debtors and private creditors with a view to promoting and maintaining stable private capital flows to emerging markets and supporting financial stability and sustainable growth. The Principles promote crisis prevention through the pursuit of strong policies, data transparency and open communication with creditors and investors (particularly under investor relations [IR] programs), and effective crisis resolution through *inter alia* good-faith negotiations with representative groups of creditors and fair treatment of all creditors.

The experience since the outbreak of the financial crisis in 2008 has demonstrated the benefits that result from an effective implementation of the Principles in helping to safeguard access by emerging markets to external financing at a time of exceptional stress in the global financial system. Countries with strong policy performance and active IR programs have clearly done well relative to others during this period of market turbulence. The Principles have also been very helpful in the limited number of cases of debt-servicing difficulties. There have been a few cases, however, in which debt restructuring has proceeded in ways that deviated from the Principles, with adverse implications for debtors, creditors, and the global financial community.

The Principles were initially designed to apply in cases involving sovereign debt obligations of emerging-market countries to external private creditors (see Box 1). The experience over the past year, however, has demonstrated the usefulness of the Principles in serving as a template for the orderly resolution in non-sovereign debt-restructuring cases in which the state plays a major role in influencing or modifying the legal and other key parameters of debt restructuring. More precisely, observance of the Principles has helped minimize difficulties that arose in several cases involving the debt restructuring of state-owned banks, intervened banks, and quasi-sovereign entities within new frameworks established by the sovereign for this purpose. Recent experience underscores the value of adherence to best practices for creditor committees—based on the Principles and the collective experience of the PCG in the restructuring processes—in guiding their formation and actions in several circumstances. Furthermore, the Principles have reinforced the special importance of excluding short-term trade credits from debt-restructuring operations. With that in mind, the PCG Working Group on Applicability of the Principles, under the leadership of Maria Ramos, CEO, ABSA Group Limited, and Luiz Pereira da Silva, Deputy Governor, International Affairs, Central Bank of Brazil, has drafted a document aimed at clarifying the applicability of the Principles.

Box 1. Benefits of Implementing the Principles

The Principles' overriding strength is that they incorporate voluntary, market-based, flexible guidelines for the behavior 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 mainly during times of diminished market access and early stages of crisis containment.

The Principles also yield substantial shared benefits for emerging-market issuers and creditors. They can reduce emerging-market country vulnerabilities to economic or financial crises, as well as the frequency and severity of 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 and thus ensuring stable capital flows to these countries and preserving financial stability.
- Enhanced creditor-debtor communication by encouraging debtors to strengthen IR activity on the basis of market best practices and investors to provide feedback. IR practices help enable policymakers to make market-informed policy decisions.
- Early corrective action through sound policymaking stimulated in some cases by intensified IR or based on direct consultations between the debtor and its creditors.
- Cooperative behavior between debtors and creditors toward an orderly restructuring based on engagement and good-faith negotiations toward a fair resolution of debt-servicing difficulties. Such actions could 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 is consistent with the implementation of debt relief programs supported by multilateral organizations and public-sector creditors, in particular, the Highly Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), as early communication enables a more accurate calculation of a common reduction factor that provides the basis for the amount of debt relief needed to bring the country back to a sustainable level.

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.

II. The Framework for Implementation of the Principles

The Principles set forth a voluntary approach to debtor-creditor relations, designed to promote stable capital flows to emerging-market economies through enhanced transparency, dialogue, good-faith negotiations, and equal treatment. 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 implementation process has six broad objectives:

1. Monitoring and evaluating how the Principles are being adhered to by issuers and investors;
2. Facilitating the development of a continuous effort by issuers and investors to keep each other abreast of developments in emerging markets and encourage sound policies and investor support;
3. Providing guidance in cases in which early course correction can promote better conditions for stable capital flows;
4. Providing recommendations to authorities with respect to better IR practices and enhanced transparency, including the format and frequency of data being disseminated to the market;
5. Offering guidance for the restructuring process in appropriate cases; and
6. Helping ensure the continued relevance of the Principles in light of changing characteristics of international capital and credit markets.

The framework for implementation is centered on the PCG, which receives secretariat support from **the Institute of International Finance (IIF)**. The **Group of Trustees for the Principles**, comprised of senior leaders in global finance, provides overall guidance for the implementation of the Principles and lends credibility and objectivity to this process. Annex I contains the full text of the Principles; Annex IV provides a list of the members of the PCG, and Annex VI lists the Group of Trustees.

The PCG has 31 members, including finance 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. 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. The PCG maintains an appropriate balance between private- and public-sector members, as well as membership balanced in geographical scope.

The purposes of the PCG are to

- Consider specific country circumstances with a view toward providing suggestions to authorities and creditors as to how to better align their policies and actions with the Principles;
- Evaluate a wide range of country cases, including those where significant progress has been made as well as others that are facing market difficulties;
- Consider the implications of developments in global capital markets for emerging markets and possible measures to address any systemic difficulties that may arise; and
- Review market trends and the changing characteristics of capital and credit markets in order to ascertain if the Principles remain relevant or require amendment. Such reviews will be generally completed ahead of the annual meetings of the Group of Trustees.

PCG meetings 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.

IMF staff (from the Strategy, Policy, and Review Department and the Monetary and Capital Markets Department) and a representative from the Federal Reserve Bank of New York **have joined PCG**

discussions for some time as observers. Additional observers from the World Bank, the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD), the Bank of International Settlements (BIS), and the European Central Bank (ECB) also participate. The active and positive involvement of the representatives from international financial institutions provides further evidence of broad support for the Principles' implementation process.

The IIF secretariat consults with members of the PCG as well as other market participants as to which countries should be included in PCG discussions. It also prepares background material on international capital market developments, country issues, and other topics on the agenda.

The Group of Trustees of the Principles is comprised of current and former leaders in global finance with exceptional experience and credibility. The Group is co-chaired by Mr. Jean-Claude Trichet, President of the European Central Bank; Mr. Henrique de Campos Meirelles, Governor of the Central Bank of Brazil; and Mr. Toshihiko Fukui, President of The Canon Institute for Global Studies and Former Governor of the Bank of Japan. The Trustees meet once a year at the time of the IMF/World Bank and IIF Annual Meetings. The Group's mandate includes

- Reviewing the evolution of the international financial system as it relates to emerging markets;
- Reviewing the development of the Principles, including their implementation; and
- Making proposals for modification of the Principles, if needed.

III. PCG Discussions on Country Circumstances

The Group of Trustees met in early October 2009 in Istanbul, Turkey, in the context of the joint Annual Meetings of the World Bank and the IMF and the parallel Annual Membership Meeting of the IIF. The Trustees reviewed the PCG's 2009 implementation report of the Principles and noted the special sessions of the PCG held during the previous year in the context of the aftermath of the financial crisis.

The Trustees noted that the application of the Principles—which were first published in 2004, following their general endorsement by the Group of 20—over the previous year had been especially important, safeguarding emerging-market access to external financing flows from the private sector during a time of exceptional stress in the global financial system. That experience demonstrated that emerging-market countries with strong policy performance and active IR programs had benefitted relative to others during periods of market turbulence. Several emerging-market borrowers had achieved good outcomes in cases involving debt restructuring through dialogue and good-faith negotiation in line with the Principles, while good-faith negotiations in the case of low-income countries had facilitated successful debt reduction under the enhanced HIPC Initiative. However, the Trustees also noted with concern isolated actions that had been taken in a few cases over the previous year, which were inconsistent with the Principles and which, if extended, could risk undermining prospects for more stable market conditions and the restoration of sustainable capital flows. The Trustees stressed the importance of participants—sovereigns, investors, creditors, and multilateral institutions—acting in consonance with the principle of transparent, good-faith dealings between sovereign issuers and private-sector creditors. The Trustees also emphasized that it would be important to maintain and enhance effective channels of communications on critical developments between the private and the public sectors and that, in this regard, the PCG was proving to be especially valuable.

Since the 2009 Group of Trustees' annual meeting, the PCG has continued its traditional quarterly conference calls, which have focused primarily on the review of the evolving global economic and financial developments and their impact on emerging markets, as well as on several evolving country cases of debt-restructuring issues. The PCG continued to provide feedback to emerging-market authorities on the implementation of the Principles, policy options, and adjustment needs. In addition, the PCG reviewed measures to address emerging systemic issues and offered guidance to parties involved in crisis resolution cases.

The country cases reviewed by the PCG ranged from notable cases of improved IR practices, successful debt reductions by low-income and other developing countries, sovereign debt exchange offers, and ongoing debt-restructuring cases involving non-sovereign debtors in which the state is playing a major role. Finally, the PCG has clarified the applicability of the Principles in circumstances beyond those originally envisaged.

Enhanced Investor Relations

The Principles underscore the importance of timely and opportune provision of economic and financial data in pursuit of sound macroeconomic and financial-sector stability. They recognize the particular value of IR programs, used by a growing number of sovereign borrowers as a framework for implementing the Principles and bolstering investor confidence. The experience of emerging markets during the financial crisis has demonstrated that timely dialogue with investors is a key element of successful crisis avoidance and for achieving a critical mass of creditor participation in cases of debt restructuring.

As reported in Section V of this report, several countries have responded positively to the recommendations of the Principles by implementing fully-fledged IR programs. Colombia is a notable example of best-practice in this area, demonstrating the benefits that can result from a combination of sound macroeconomic policies and strong fundamentals, with a commitment to transparency and open communication with investors. As illustrated in Box 2, the Colombian authorities have made significant progress in improving IR practices. The PCG has underscored that a regular briefing of creditors regarding economic policy developments can play a key role in allowing market participants to better assess the authorities' policy plans and objectives. Generally, the Principles can help strengthen the international financial system by encouraging countries to fill data gaps through improved dissemination.

Box 2. Colombia: Benefits of the Principles in Periods of Global Economic Uncertainty

The importance of sound economic policies and strong institutional and policy frameworks—including enhanced transparency and good communication with investors—is evidenced by Colombia's experience in coping with the challenging external environment.

Sound macroeconomic policies, structural reform implementation, and favorable external conditions had contributed to Colombia's strong economic performance prior to the global economic crisis. Colombia's output expanded by more than 7 percent a year during 2006–2007, its strongest expansion since the late 1970s and above the average growth rate for Latin America.

The global recession affected the Colombian economy through a weakening in the terms of trade, a reduction of exports, and a decline in equity prices and market confidence. While the banking system remained well capitalized, external credit flows were disrupted. The authorities engaged in countercyclical policies to cushion the impact on domestic economic activity.

With global credit conditions deteriorating and risk aversion heightened, the authorities capitalized on strong international support to make the economy more resilient by securing multilateral financing. Colombia's sustained record of sound economic policies, solid fundamentals, and a good track record of observance of the Principles (including the provisions regarding data transparency) were helpful in enabling the country to become eligible for assistance under the IMF's new facility for short-term liquidity support, the Flexible Credit Line.

Furthermore, the authorities responded positively to the recommendations of the Principles by proactively enhancing their IR practices. Colombia's IR activities have been institutionalized since 2008, with the establishment of Investor Relations Colombia (IRC) under the Public Credit Directorate of the Ministry of Finance and Public Credit. The IRC has been instrumental in the authorities' efforts to communicate with the broad private investor base constantly, including at times of market volatility.

Although economic growth slowed down sharply during 2008–09 to an average of 1.8 percent—reflecting the impact of the global recession—the limited decline in output is a testament to the resilience the Colombian economy has developed over time. A broad-based recovery in Colombia's output to 4 percent is expected for 2010, stronger than earlier projected. Consumer and business confidence has improved steadily, credit growth has resumed, and foreign direct investment inflows have regained an upward trend.

Colombia has benefited from uninterrupted access to international capital markets. In late November 2009, the authorities issued 10-year samurai bonds totaling 45 billion yen, with a yield of 2.42 percent (approximately $500 million). In addition, in early April 2010, the authorities issued at par nearly $800 million in a new 11-year peso-denominated bond with a yield of 7.75 percent. IRC has served Colombia well during turbulent market conditions, as investors have been able to better assess the authorities' policy efforts.

Key issues that concern policymakers include Colombia's large structural budget deficit, rooted in expenditure inflexibility and an inefficient tax structure. The policy priorities of the new administration of President Santos include approval by Congress of a series of reforms to address outstanding structural fiscal issues, improve economic growth, and reduce unemployment rates in the period ahead. The new administration also expects to implement additional changes in the Fiscal Responsibility Policy, such as the introduction of a fiscal rule, so as to facilitate a prudent management of the expected increase in revenues from royalties, dividends, and taxation as a result of the impending oil and mining boom.

Debt Relief Cases in Low-Income and Other Developing Countries

The market-based approach for cooperation and good-faith relations with creditors have also proven useful in low-income countries benefiting from development assistance and debt relief. Prolonged periods of conflict or political instability present obstacles to a smooth communication process with creditors, but as circumstances normalize, it is in the best interests of both debtor nations and creditors to reestablish constructive relations that can place the country on a sustainable path to growth.

Box 3 summarizes the positive debt reduction outcome in Côte d'Ivoire. The PCG welcomed progress made by Côte d'Ivoire in obtaining debt relief from its commercial external creditors, following the clearance of its debt service arrears vis-à-vis multilateral creditors, the adoption of an IMF-supported adjustment program, the reaching of its decision point under the enhanced HIPC Initiative, and the adherence to an approach consistent with the Principles. The restructuring represents a significant advancement for the country in restoring relations with commercial creditors and re-accessing international capital markets.

The authorities of Côte d'Ivoire were able to complete a successful debt exchange offer after extensive good-faith negotiations with a representative committee of affected external commercial creditors. Close cooperation of the creditor committee with multilateral lenders facilitated the attainment of a debt exchange on terms deemed to be fair by all parties involved and on terms comparable to the debt relief granted by the Paris Club and other bilateral and multilateral creditors under the enhanced HIPC Initiative.

The PCG has also noted the far-reaching external debt reduction achieved by the Seychelles authorities, as detailed in Box 4. The debt exchange concluded in February 2010 was consistent with the

Box 3. Côte d'Ivoire's Progress Toward Debt Sustainability

Côte d'Ivoire has made solid progress in normalizing its relations with external creditors. It cleared its arrears with the World Bank in 2008 and with the African Development Bank in March 2009, facilitating the approval in March 2009 by the IMF of a three-year, $566 million arrangement under the Extended Financing Facility (EFF) and the Poverty Reduction and Growth Facility (PRGF). At the same time, Côte d'Ivoire reached the decision point under the enhanced HIPC Initiative, entailing a common debt reduction factor of nearly 24 percent, and concluded in May 2009 an agreement with the Paris Club that rescheduled $1.23 billion of external debt, cancelled another $845 million, and deferred $2.61 billion. Since then, bilateral debt-restructuring agreements have been signed with virtually all Paris Club creditors, reducing debt service payable to these creditors by 93 percent. As a result, Côte d'Ivoire's external public debt was reduced from 68 percent of GDP in 2007 to 54 percent projected for 2010. By July 2010, disbursements under the IMF-supported program totaled over $345 million. Côte d'Ivoire will qualify for further debt relief assistance after reaching a completion point under the enhanced HIPC Initiative.

In parallel, Côte d'Ivoire reached a preliminary agreement with the informal London Club group of private external creditors in September 2009 and successfully completed in mid-April of 2010 a debt exchange offer, restructuring over 99 percent of the $2.8 billion Brady bonds in default. Côte d'Ivoire had defaulted in 2000 on its Brady bonds resulting from its 1998 debt restructuring. Negotiations toward resolution were delayed until 2009 as civil war in 2002–03 and the associated protracted political instability put the country in turmoil.

The resolution of default lends further credibility to the importance of a proactive and market-based approach, putting the country on a path to sustainable growth. In particular, holders of six defaulted Brady bonds participated in the exchange of an aggregate of $2.8 billion in claims with $2.38 billion in new bonds. The arrangement entailed a discount of 20 percent on exchangeable debt. Negotiations were conducted in a way consistent with the required debt relief under the enhanced HIPC Initiative. Due diligence has relied largely on transparency and open dialogue between private creditors and the authorities. The successful restructuring is a significant step toward restoring normal relations with creditors and renewed access to capital markets. The authorities continue their efforts to reach agreements with the non–London Club creditors.

Principles and the IMF's lending-into-arrears policy. The Seychelles authorities remain committed to a cooperative dialogue with private creditors in the ongoing discussions with the remaining external private creditors.

Overall, the PCG has welcomed the increased cooperation between developing countries and their external commercial creditors and has underscored the desirability and usefulness of market-based, good-faith discussions among debtors and private creditors in resolving debt overhangs and achieving debt reductions in line with expectations under multilateral debt relief initiatives. Such a cooperative approach, which has worked well in several cases, was seen by the PCG as far superior to a resort by some countries to legislation to limit contractual and other rights of creditors in their jurisdictions.

Sovereign and Quasi-Sovereign Debt Restructuring

Since their establishment, the Principles have helped reinforce cooperative approaches to debtor-creditor relations, enhancing stability in capital flows while also facilitating orderly debt restructuring in cases where this proved necessary. Over the past year, a growing number of sovereign issuers have benefited from this approach in navigating successfully through this period of unusual market turbulence.

Over the past year, PCG has reviewed on a regular basis three fairly complicated cases entailing the restructuring of the external liabilities of non-sovereign or quasi-sovereign entities that have raised a broad range of issues and new challenges: Dubai World, Iceland, and Kazakhstan. The ongoing efforts to restructure the external debt

Box 4. Seychelles: Consolidating Macroeconomic Stabilization and Improving Fiscal and Debt Sustainability

The expansionary policy framework and structural distortions in place since the late 1970s have contributed to widening macroeconomic imbalances. In 2007–08, the spike in commodity prices and strains in the global economy exposed Seychelles, which relies heavily on tourism, to an acute balance of payments crisis, ultimately leading to a default on a $230 million Eurobond in October 2008.

To deal with the deep domestic and external imbalances, the authorities adopted a series of reforms supported by a two-year, $26 million Stand-By Arrangement from the IMF, approved in November 2008. The Seychelles adjustment program included sweeping reforms in monetary, fiscal, and exchange rate policies; improvements in transparency, accountability, governance in the public-enterprise sector, and other structural reforms; and efforts to achieve expedited resolution of the unsustainable external public debt and a normalization of relations with external creditors. All exchange rate and interest rate restrictions were abolished; the currency was floated; and fiscal policy was tightened sharply, accompanied by a targeted social safety net that replaced generalized subsidies. As a result, inflation declined from 37 percent just before the float in 2008, to zero in 4 months, and stabilized at low single digits since then.

These far-reaching efforts to restore fiscal and external debt sustainability have received overwhelming support from creditors, leading to debt reductions that have so far reduced external public-sector debt from more than 100 percent of GDP to less than 50 percent of GDP, with a significant lengthening of maturities and a smoother debt service profile. In April 2009, Seychelles secured a rescheduling of obligations to Paris Club creditors and concluded in February 2010 a debt exchange with private external creditors. The authorities engaged with private creditors in a cooperative and good-faith process, leading to an exchange of notes and commercial bank debt for U.S. dollar–denominated notes maturing in 2026, entailing a 50 percent discount, or $225 million in principal, accrued interest, and other charges. The face value of the new notes was approximately $169 million, with interest accruing in a step-up coupon structure. A collective action clause included in the Eurobond boosted participating claims to 100 percent from the 84 percent originally tendered. All other instruments eligible under the exchange offer were tendered in their entirety. Additionally, the offer was supported by a unique $10 million Guarantee Operation by the African Development Bank, covering 2–7 semi-annual interest payments on a rolling basis. Paris Club creditors provided a debt reduction of 45 percent, or about $70 million, with a long-term rescheduling of the remaining debt. The authorities are near completion of their discussions on debt relief on comparable terms with a few remaining bank and non–Paris Club bilateral creditors.

obligations of Dubai World, a quasi-government entity, have potential systemic implications for Dubai as a whole. This case raised questions about the transparency of information and the avoidance of discrimination among creditors. The other two cases (see Boxes 5 and 6, respectively) involved the orderly crisis resolution in instances in which financially integrated economies have dealt with unsustainable domestic credit booms and a consequent banking system collapse that have necessitated government intervention in non-sovereign or quasi-sovereign entities. These interventions to influence or modify the legal and other key parameters of debt restructuring have raised several interrelated issues, including potential implications about the preservation of a minimum functioning of the domestic banking system; the debt sustainability of the sovereign; the legal framework for debt restructuring and the contractual basis of international lending; the role of the state in the debt resolution discussions; relations with external creditors; and the treatment of trade finance claims.

The PCG discussion on these issues dealt not only with the monitoring of developments but also the broader question of whether the applicability of the Principles would be appropriate and useful to both debtors and creditors, even though the original debtors were not sovereign debtors, and the desirability of not interfering in the otherwise necessary application of domestic bankruptcy procedures. The novel common element in these cases was the involvement of the sovereign in ways that influenced significantly the legal framework and the positions adopted by the initial debtors in the debt resolution discussions, as well as the potential systemic implications for the country as a whole in the absence of a mutually acceptable solution. Traditional issues such as data transparency, open dialogue with creditors, and good-faith and fair negotiations with creditors remained relevant, as well as, in one case, issues related to the treatment of trade finance.

The PCG took particular care to address the needs of the different creditor groups throughout the restructuring process, highlighting the special role of trade finance, given its importance in maintaining trade flows, especially at a time of financial turmoil. In the case of Iceland, the PCG continues to encourage both the authorities and creditors to maintain a cooperative and market-based approach and a transparent process, so as to avoid litigation and confrontation, contributing to a swift and fair resolution of the crisis for all concerned parties.

Box 5. Bank Restructuring in Iceland

In the 2000s, favorable global financial conditions and access to foreign credit spurred rapid growth in the Icelandic financial sector. Bank privatization, globalization, and financial deregulation expanded the banking sector, whose assets grew to about 900 percent of GDP by end-2007, dominated by three large private commercial banks with an extensive international network. It is estimated that about two-thirds of the banks' activities were outside Iceland, providing more than half of the revenues. Initially, these banks relied heavily on external wholesale market funding for their operations but resorted subsequently to intensive deposit mobilization to diversify their funding profile, sourcing eventually over two-thirds of their deposits from non-residents. A large part of the loans extended by Icelandic banks to domestic residents were denominated in foreign currency or included an inflation adjustment clause.

With the onset of the global financial crisis and the associated shift to risk aversion, severe liquidity problems, and deteriorating asset quality spurred a collapse of the Icelandic banking system in October 2008, as banks could not continue servicing or rolling over their liabilities through international markets. Faced with the prospects of a complete collapse of domestic banking services and payment intermediation, Iceland's parliament passed emergency legislation on October 6, amending the ranking of creditors by granting depositors ex-post priority over senior creditors and enabling extensive government intervention in the financial system. By October 9, the three main banks were put into moratorium by the Financial Supervisory Authority (FME)—their amassed debt amounted to an estimated $61 billion, or over 12 times Iceland's GDP.

(continued)

Box 5. Bank Restructuring in Iceland (continued)

Domestic demand collapsed, spurring a deep recession, a sharp decline in asset prices, and a sharp disruption of the onshore foreign exchange market and the external payment systems, necessitating swift and far-reaching government intervention to restructure Iceland's banking system. Multilateral assistance through an IMF stand-by arrangement of $2.1 billion in November 2008 was the first step in developing a road-map for bank restructuring, in addition to stabilizing the exchange rate and ensuring medium-term sustainability of public finances. The loan was complemented with bilateral financing of $2.5 billion from Norway, Sweden, Denmark, Finland, and other bilateral lenders.

The FME split the failed banks into "Old Banks" and "New Banks," shifting domestic deposits and associated assets to the balance sheet of the New Banks to ring-fence a basic functioning of the domestic intermediation process. However, the outstanding large commercial external liabilities (of over 500 percent of GDP at end-2007) to individual depositors and other creditors and the lack of a framework for cross-border crisis management aggravated the situation. Moreover, the ensuing uncertainty prompted the U.K. authorities to seize Iceland's external assets under the 2001 Anti-terrorism, Crime, and Security Act. Between March 2009 and April 2010, FME intervened with six additional banks and placed them under moratorium or in a winding-up process.

The compensation due to Old Banks, where applicable, has been agreed between the Icelandic authorities and the Resolution Committees. The ultimate compensation will in part depend on future developments. In late 2009, the Central Bank of Iceland collaborated with the IIF in convening a meeting with foreign bank creditors in Iceland, and on January 28, 2010, the authorities co-hosted a "Seminar on the Icelandic Financial Crisis." Creditor banks have established an International Commercial Lenders Group (ICLG)—now representing around $10 billion of bank exposure—as a counterpart in the discussions, under the chairmanship of Bayern LB. The ICLG has established linkages and a framework for transparency with bondholders and has sought the participation of the Icelandic authorities and Resolution Committees.

Interactions with creditors have since continued in a decentralized manner in several separate Resolution Committees. To date, a restructuring concept for one of the failed banks (i.e., Straumur) has been successfully concluded through transparent and collaborative processes and engagement with creditors. Discussions on the resolution of the other institutions, however, are still ongoing with the Resolution Committees.

At a meeting on May 19, 2010, among the ICLG and an Icelandic inter-agency coordinating body, chaired by officials from the Ministry of Economic Affairs, an agreement was reached on issues of mutual concern for further dialogue. These issues included the future of the Icelandic savings banks sector, where the authorities are finalizing the restructuring of one of the major collapsed savings banks and the remaining smaller savings banks and also legal risk situation (changes in the seniority of creditors). A follow-up meeting among the coordinating body, the ICLG, and bondholder representatives took place on September 7, 2010.

In parallel, a June 16 ruling by Iceland's Supreme Court clarified that the practice of indexing ISK-denominated loans to foreign currencies was illegal, which may result in further bank recapitalization. Bank recapitalization needs will depend on further Supreme Court rulings regarding the interest rates that will apply to loans with illegal FX indexation clauses and the extent of loans affected. These potential needs are being determined by the FME. The Central Bank of Iceland and the FME have published prudent recommendations as to the treatment of such loans until final substantive judgments become available.

Box 6. Bank Restructuring in Kazakhstan

The resolution of the three intervened banks in Kazakhstan (Alliance Bank, BTA Bank, and Temir Bank) provided major challenges for the authorities and external creditors during 2009–10 as it broke with the conventional bank bailout approach adopted by developed economies.

Since independence in 1991, Kazakhstan had benefited from a surge in the prices of its oil, metal, and other commodity exports, as well as the introduction of market-based reforms and sound macroeconomic policies.

During the decade preceding the global financial crisis, robust capital inflows helped fuel a rapid expansion in domestic credit and strong economic growth, mainly oriented in the real estate and construction sectors. As a result of this growth, Kazakh banks became more dependent on wholesale funding, which left the financial sector vulnerable to swings in international capital flows. Unsurprisingly, and in tandem with developed markets, the Kazakh banking system came under severe pressure during the global financial crisis as foreign lines of credit were interrupted, while at the same time non-performing loans rose dramatically and asset quality deteriorated rapidly. In addition, alleged fraudulent activities and related-party lending, often unsecured, challenged the auditors and local regulators of Alliance Bank and BTA Bank.

On October 23, 2008, in response to the global financial crisis, Kazakhstan took a series of steps to protect its financial system. It passed the Financial Stabilization Law aimed at strengthening the stability and resilience of the country's financial system. The law also aimed at strengthening the powers of the country's financial authority (the FMSA). In addition, an Anti-Crisis Plan (US$10 billion) was devised and adopted to support the financial sector and real economy.

Moreover, in February 2009, when it became clear that two of the country's largest commercial banks, Alliance Bank and BTA Bank, would be unable to meet regulatory requirements, the National Welfare Fund, Samruk-Kazyna, acting according to the new law, took over control of these two entities to prevent a disorderly collapse of these banks.

From the onset of the restructuring process, while devising its own appropriate restructuring strategy, the government of Kazakhstan stated its commitment to best market-based restructuring practice in accordance with the Principles. In February 2009, the government hired independent advisors who provided restructuring and asset recovery advice that served to form the restructuring strategy and framework, which was a burden-sharing approach that excluded the provision of guarantees while ensuring the banks' ongoing operations and, in the case of BTA Bank, the asset recovery framework committing the bank and its shareholders to undertake legal action to realize value for the banks and their creditors.

The restructuring process framework and principles were announced to investors early in the first quarter of 2009. To ensure a successful execution, recognized financial and legal advisors were hired in the first quarter of 2009 for the restructuring process, and in the second quarter of 2009, the asset recovery team for BTA Bank was in place.

As part of the government's objective to provide a transparent and fair legislative framework to the restructuring process, it elaborated the "New Restructuring Law" to ensure that a restructuring effected under it would be capable of international recognition in countries (e.g., United Kingdom, United States) that have adopted legislation based on the 1997 UNCITRAL Model Law on Cross-Border Insolvency.

The legislative package was contained in the Law of the Republic of Kazakhstan No. 18S-IV ZRK dated July 11, 2009, on Amendments and Additions to Certain Legislative Acts on Money Payments and Transfers, Accounting and Financial Reporting, Banking Activities, the National Bank of Kazakhstan, and Other Legislation (the New Restructuring Law), published in *Kazakhstanskaya Pravda* on July 30, 2009, and taking effect on August 30, 2009.

Negotiations on each of these three banks have by now been concluded.

- The US$5.3 billion restructuring of Alliance Bank obligations was concluded in March 2010, lowering its liabilities by about US$4.2 billion down to US$1.1 billion. The resulting US$3.6 billion recapitalization restored its capital base to US$340 million.

  Alliance Bank approved the issuance of six series of new notes to domestic and foreign creditors in connection with the implementation of its restructuring plan, comprising US$ and Tenge 7-year Senior Discount Notes, US$ and Tenge 10-year Senior Par Notes, Tenge 20-year Subordinated Notes, and US dollar-denominated Recovery Notes. As a result of these arrangements, ownership of the bank will be split 67 percent for the National Welfare Fund, Samruk-Kazyna, and 33 percent for the creditors.

(continued)

Box 6. Bank Restructuring in Kazakhstan (continued)

The nine members of the creditors' committee were Asian Development Bank; Credit Agricole Corporate and Investment Bank; Commerzbank Aktiengesellschaft; DEG—Deutsche Investitions—und Entwicklungsgesellschaft mbH; HSBC Bank plc; Bank of Singapore Limited; JPMorgan Chase Bank, N.A.; Sumitomo Mitsui Banking Corporation Europe Limited; and Wells Fargo Bank, National Association.

- The US$1.5 billion restructuring of Temir Bank obligations was concluded in May 2010, lowering its liabilities by about US$770 million. The resulting US$939 million additional capital created restored its capital base to US$255 million. Temir Bank approved the issuance of new US dollar-denominated Senior 12-year Notes in connection with the implementation of its restructuring plan.
  As a result of these arrangements, ownership of the bank will be split 79 percent for the National Welfare Fund, SK; 20 percent for the creditors; and 1 percent for the former shareholders.
  The five members of the creditors' committee were Banco Finantia International Limited, Black River Emerging Markets Credit Fund Ltd, BTG Absolute Return Master Fund LP, Nomura International plc, and Portland Worldwide Investments Limited.

- The US$16.7 billion restructuring of BTA Bank obligations was concluded in September 2010, lowering its liabilities by about US$12.6 billion to US$4.1 billion. The resulting US$11.3 billion recapitalization restored its regulatory capital to US$1.9 billion.
  BTA Bank approved the issuance of nine series of new notes to domestic and foreign creditors in connection with the implementation of its restructuring plan, comprising US dollar and Tenge 8-year Senior Notes; US dollar and Euro 11-year OID Notes; US dollar, Euro, and Tenge 15-year Subordinated Notes; Tenge 20-year Subordinated Notes; and US dollar-denominated Recovery Notes.
  As a result of these arrangements, ownership of the bank will be split 81.5 percent for the National Welfare Fund, SK, and 18.5 percent for the creditors.
  The 11 members of BTA Bank creditors' committee were Bank of Singapore Limited; Commerzbank Aktiengesellschaft; D. E. Shaw Group; DEG—Deutsche Investitions—und Entwicklungsgesellschaft mbH; Euler Hermes; Fortis Investment; Gramercy Advisors LLC; Standard Chartered Bank; The Royal Bank of Scotland; US Ex-Im Bank; and Wells Fargo Bank, National Association.

For the treatment of trade financing in these restructurings, which at some time was a source of concern to the PCG, the final agreements in both Alliance Bank and BTA Bank included a generally favorable treatment for *bona fide* trade credits, after verification of these credits by an external adjudicator. The concept of *bona fide* trade finance was developed in response to the specific circumstances of the Kazakh banks and will necessitate a more precise definition of trade finance if the favorable treatment of trade finance under debt restructuring as envisaged by the Principles is to be assured.

- In the case of BTA, around one-third of the US$3.0 billion trade finance claims were judged to be *bona fide* by the definition applied by BTA; these claims were restructured through a combination of direct haircuts and an extension of the remaining exposure through a new, 3-year revolving trade facility. The remaining claims which were not judged to be *bona fide* were treated *pari pasu* with other senior unsecured credits.

- In the case of Alliance Bank, the ultimate outcome was more consistent with the Principles; around one-third of the US$300 million trade finance claims were judged to be *bona fide* and received favorable treatment, with the holders of these claims being repaid at par over a 12-month period.

In conclusion, the final agreements in both of these banks included a generally more favorable treatment for *bona fide* trade credit, after verification of these credits by an external adjudicator, than other longer-term credits, but trade financing had still to go through a restructuring process.

Clarification of the Applicability of the Principles

To effectively address the broader issues indicated above, the PCG established in the summer of 2010 a Working Group on Applicability of the Principles, which was entrusted with the preparation of a report clarifying the applicability of the Principles. The Working Group—co-chaired by Maria Ramos, CEO, ABSA Group Limited, and Luiz Pereira da Silva, Deputy Governor, International Affairs, Central Bank of Brazil—consists of expert practitioners from the public and private sectors, as well as observers from international financial organizations (see Annex V for a list of its members).

The Working Groups report, entitled *Applicability of the Principles for Stable Capital Flows and Fair Debt Restructuring* (Annex II), has been reviewed and endorsed by the PCG as a supplement to the Principles. This supplement essentially points to the benefits of broadening on a voluntary basis, as is the case with the Principles themselves, the applicability of the Principles to cases involving the restructuring by non-sovereign and quasi-sovereign entities (i.e., entities with a minority- or majority-share participation by the state) in which the state plays a major role in influencing the legal and other key parameters of debt restructuring, as well as in the restructuring of external debt obligations by low-income countries and other developing countries seeking debt reduction from their private external creditors, including under the enhanced Highly Indebted Poor Countries (HIPC) and Multilateral Debt Reduction Initiatives (MDRI). The supplement also reiterates the existing provisions of the Principles for a favorable treatment of trade finance claims under debt restructuring.

The underlying rationale for these proposals is multifaceted and includes the following considerations:

- First, recent developments in the restructuring of external debt owed to foreign commercial creditors involved not only the traditional sovereign emerging market debtors and their commercial creditors for whom the Principles have so far been meant to cover but also quasi-sovereign and non-sovereign entities under some specific circumstances whereby the state has intervened to influence the legal and other key parameters of debt restructuring. The scale of operations of these entities and their domestic systemic significance have necessitated in a few cases the involvement of the state to help contain the impact on the domestic banking system, as well as limit the potential overall external financing needs of the country and the associated impact on exchange rate, monetary, fiscal, and debt management policies. Debt restructuring and resolution operations became necessary to contain these risks, which, because of their systemic nature, could not be handled effectively without the involvement of the state and, in part, its financial and management support. Under these complex circumstances, debtors and creditors on their own volition have found it useful to resort to a *de facto* application, at varying degrees, of the key provisions of the Principles as a way of achieving better outcomes in their debt-restructuring discussions. The Principles have provided the needed framework for transparency, dialogue, and good-faith negotiations with creditors and for fair treatment of all creditors and the mutual benefit of all parties involved.

- Second, the proposal to extent the applicability of the Principles to non-sovereign and quasi-sovereign entities in which the state plays a major role in influencing or modifying the legal and other key parameters of debt restructuring does not compromise the legal rights of creditors, nor does it create additional difficulties for macroeconomic management or the application of the IMF's policy of lending into arrears. The latter policy applies in cases in which there is an IMF program in place and in the presence of sovereign arrears to private external creditors (or non-sovereign arrears resulting from the imposition of exchange controls) and would therefore be affected only by government interventions in local entities to the extent the sovereign explicitly assumes the entities' external obligations, which is typically not the case, irrespective of whether the Principles are applied. At any rate, the Principles would continue to be applied on a voluntary basis and in a flexible manner, without altering any of the existing legal rights of debtors or creditors, including the provisions under the governing local or other legal framework or the domestic Bankruptcy Code. It is important to note that the broadening of the applicability of the Principles to the cases of non-sovereign or quasi-sovereign entities in which the state plays a major role (in the form indicated above) ***does not imply*** an extension of the sovereign's financial responsibilities to private debtors or the debt of other non-sovereign or quasi-sovereign entities for which the state does not intervene.

- Third, the proposal to extend the applicability of the Principles to relief of debt obligations to external private creditors or investors by the sovereign in low-income and other developing countries, including in the context of providing debt relief envisaged under the HIPC and MDRI Initiatives, is simply a recognition of the identical nature of these operations with those by sovereigns in emerging markets. In the same vein, extending the applicability of the Principles to low-income and other developing countries—as well as those not traditionally thought of as emerging markets—on a voluntary basis, would be a more appropriate and logical generalization.

- Finally, while a fair and comparable treatment of all creditors in bearing the burden of debt restructuring remains a major consideration, experience over the years has shown that an exclusion of short-term trade credits from debt restructuring has been mutually beneficial to both debtors and creditors and the global financial community in general, by helping avoid a disruption of exports and imports and output growth. The note on the applicability of the Principles simply reiterates the relevant provisions of the Principles as it regards the desired exclusion of short-term trade and interbank credits from debt restructuring. Such a treatment would continue to require that all such obligations are verified and that they continue to be fully serviced by debtors, while creditors commit to roll them over. Should it become necessary, trade credits could still be included in debt-restructuring operations, but they need to be treated separately.

IV. Investor Relations and Data Transparency

Since the establishment of the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* in 2004, a growing number of sovereign borrowers have recognized the importance of active IR programs and strong data dissemination practices as tools to demonstrate sound economic policies and to strengthen their relationship with the investor community (see Table 1). This section provides detailed analysis of IR and data transparency practices by the most active emerging-market borrowers, as well as some prospective issuers.

The number of countries with formal IR programs in place increased from 5 in 2004 to 12 as of September 2010. Poland institutionalized its IR activities in February 2009 and made information available to its investor base in 2010. Colombia incrementally upgraded its IR program throughout 2010 (Colombia is also discussed in Box 2 in this document). South Africa is expected to launch a formal IR program later this year.

Many emerging markets continue to display a remarkable resilience to stress in financial markets. Several countries are increasing the resources devoted to IR, and sovereigns with institutionally strong IR programs have been able to make active use of these resources to meet investor needs. Peru, a sovereign with an active IR program, achieved investment-grade status in 2008. Turkey, a country with a sophisticated IR program, is slated to be upgraded to investment grade. Some countries continue to focus mainly on data dissemination. However, several countries, including Bulgaria, Colombia, Peru, and Poland, have made marked improvements in meeting the IIF best practice criteria. Some of the more advanced IR programs, such as those by Brazil, Indonesia, the Philippines, and Turkey, continue to improve and innovate on

Table 1. Active Investor Relations Programs

Country	Date of launch of IRP	Location
Mexico	1995	Ministry of Finance and Public Credit
Brazil Central Bank Brazil Treasury	April 1999 2001	Banco Central do Brasil The National Treasury
Chile	Unknown, revised 2009	Ministry of Finance
The Philippines	July 2001	Bangko Sentral ng Pilipinas
Korea	2004	Ministry of Strategy and Finance
Turkey	August 2005	Prime Ministry, Undersecretariat of Turkey
Indonesia	February 2006	Bank Indonesia
Peru	April 2006	Ministry of Economy and Finance
Morocco	December 2007	Ministry of Economy and Finance
Colombia	Launched 2008/Upgraded 2010	Investor Relations Colombia, Directorate of Public Credit, Ministry of Finance
Poland	February 2009	Investor Relations Division, Public Debt Department, Ministry of Finance
Dominican Republic	September 2009	The Public Debt Office, Ministry of Finance
South Africa	Expected 2010	National Treasury, Ministry of Finance

qualitative aspects of communication with investors. Several countries have allocated more resources to communication with investors and are planning to revamp their websites, including Bulgaria, the Philippines, Peru, and Poland.

This year Colombia, Indonesia, and Turkey have capitalized on more sophisticated channels of communication with investors by holding public conference calls. Public conference calls allow sovereigns to reach a broad cross section of their investor base and allow policymakers to address investor concerns directly through a question-and-answer format. This communication channel is convenient for both authorities and investors, as they can communicate across multiple time zones. In the past year, several countries, including Hungary and the Philippines, held closed conference calls in which investors were invited to participate by the sponsoring investment bank. IIF best practice recommends conference calls to be open to all investors, allowing all creditors access to the same information. Announcements, dial-in instructions, and supplementary information for upcoming and previous conference calls should be posted on the sovereign's website and distributed by e-mail to the sovereign's investor contact list.

The IIF's IR and data practice assessments support the implementation of the Principles, as well as other initiatives on crisis prevention and resolution. By reporting advances in sovereign IR practices, this report provides information to both borrowing countries and the investor community. In addition to its role in serving as secretariat for the PCG, the IIF provides value to its members by providing sovereigns with IR best practice recommendations, including best practices on the format and frequency data should be disseminated to the market. This report provides key borrowing countries with a unique opportunity to convey to market participants the efforts they are making to strengthen the dialogue with investors and furthermore presents authorities with an outline of elements of their IR and data transparency practices that could benefit from strengthening.

This report offers investors a comprehensive comparative evaluation of communication and data dissemination practices for 38 countries and a guide to locating available information relevant to investors. At the same time, investors are better equipped to assess whether country practices meet their expectations and needs. The IIF website provides links to the sovereign websites and contact information for persons responsible for communication with investors.[1]

The full scoring of each country in the IIF IR and data transparency index is shown in Tables 2 and 3. The best practices for IR used in this report have been endorsed by the Investor Relations Focus Group comprised of investment professionals from IIF member firms. These best practices can be used by emerging market economies to design country-specific IR programs. The index is a summation of the IR and data release practices scores on a prioritized basis. A detailed explanation of each criterion is provided in Appendix A.

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[1] See http://www.iif.com/emp/ir

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						Investor Relations Contact List	Feedback and Communication Channels							Regular Self-Assessment	
		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 market-relevant data	Macroeconomic data presented in market-friendly format	Historical policy information available	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/or 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	
	Weight	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	1	1	3	2	1	
Country	Score																					Country
Belize	7	0	0	3	0	0	0	1	0	0	0	2	0	0	1	0	0	0	0	0	0	Belize
Brazil*	38	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	1	1	3	2	1	Brazil*
Brazil (Gerin)	38	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	1	1	3	2	1	Brazil (Gerin)
Brazil (Treasury)	38	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	1	1	3	2	1	Brazil (Treas.)
Bulgaria	21	0	0	3	1	0	1	3	2	2	3	2	0	0	1	0	0	0	3	0	0	Bulgaria
Chile	36	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	0	0	3	2	1	Chile
China	3	0	0	0	0	0	0	0	0	0	0	2	0	0	1	0	0	0	0	0	0	China
Colombia	29	2	3	3	0	1	1	2	0	0	0	2	3	2	1	1	1	1	3	2	1	Colombia
Costa Rica	12	0	0	0	0	1	1	2	0	0	0	0	0	0	1	1	0	0	3	2	1	Costa Rica
Croatia	20	0	0	3	1	0	1	3	2	2	3	2	0	0	1	0	0	0	0	2	0	Croatia
Dominican Republic	30	2	3	3	1	1	0	3	2	0	0	2	3	2	1	0	0	1	3	2	1	Dom. Rep.
Egypt	14	0	0	3	0	0	1	3	0	2	0	2	0	0	1	0	0	0	0	2	0	Egypt
Gabon	2	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	Gabon
Ghana	10	0	0	3	0	0	0	0	2	2	0	2	0	0	1	0	0	0	0	0	0	Ghana
Hungary	29	2	3	3	0	1	1	3	2	2	3	2	0	0	1	1	0	0	3	2	0	Hungary
Indonesia	36	2	3	3	1	1	1	3	0	2	3	2	3	2	1	1	1	1	3	2	1	Indonesia
Kenya	10	0	0	3	1	0	0	1	0	2	0	2	0	0	1	0	0	0	0	0	0	Kenya
Korea	34	2	3	3	1	1	1	2	2	2	3	2	3	0	1	1	0	1	3	2	1	Korea
Lebanon	22	0	0	3	1	1	0	2	2	2	0	0	3	0	1	1	0	0	3	2	1	Lebanon
Malaysia	17	0	0	3	1	0	1	2	2	2	0	0	0	0	1	0	0	0	3	2	0	Malaysia
Mexico	34	2	3	3	0	1	1	3	2	2	3	0	3	2	1	0	1	1	3	2	1	Mexico
Morocco	16	2	3	3	0	1	1	3	2	0	0	0	0	0	1	0	0	0	0	0	0	Morocco
Nigeria	6	0	0	3	0	0	0	0	0	0	0	2	0	0	1	0	0	0	0	0	0	Nigeria
Pakistan	21	0	0	3	1	1	0	2	0	2	0	2	3	0	1	1	0	0	3	2	0	Pakistan
Peru	35	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	0	0	3	2	0	Peru
Philippines	34	2	3	3	1	1	1	2	0	2	3	2	3	2	1	1	0	1	3	2	1	Philippines
Poland	35	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	0	0	3	2	0	Poland
Romania	17	0	0	3	0	0	1	2	0	2	0	2	3	0	1	0	0	0	3	0	0	Romania
Russia	7	0	0	3	0	0	1	2	0	0	0	0	0	0	1	0	0	0	0	0	0	Russia
South Africa	31	2	0	3	0	1	1	3	2	2	3	2	3	2	1	1	0	0	3	2	0	South Africa
Tanzania	5	0	0	3	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	Tanzania
Thailand	21	0	0	3	1	1	1	2	0	2	0	2	3	0	1	0	0	0	3	2	0	Thailand
Tunisia	6	0	0	0	0	0	1	2	0	0	0	2	0	0	1	0	0	0	0	0	0	Tunisia
Turkey	38	2	3	3	1	1	1	3	2	2	3	2	3	2	1	1	1	1	3	2	1	Turkey
Ukraine	12	0	0	0	0	0	1	2	0	0	0	2	3	0	1	0	0	0	3	0	0	Ukraine
Uruguay	12	0	0	0	0	0	1	3	0	0	0	2	0	0	1	0	0	0	3	2	0	Uruguay
Venezuela	10	0	0	0	1	1	0	2	0	0	0	0	3	2	1	0	0	0	0	0	0	Venezuela
Vietnam	9	0	0	0	0	0	0	0	0	0	0	2	3	0	1	0	0	0	3	0	0	Vietnam
Zambia	4	0	0	3	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	Zambia

*Reflects a combined score of the Gerin office at the Banco Central do Brasil and the IRU office at the National Treasury.

Table 3. Assessment of Data Dissemination Practices (Prioritized)

Elements in Data Practices		Central Government Operations (CGO) **							Central Government Debt (CGD) ***				
		SDDS subscriber*	CGO periodicity	CGO timeliness	Time series availability	Domestic and external financing availability	MGFS 1986 (cash accounting)	GFSM 2001 or transition toward GFSM 2001 (accrual accounting)	CGD timeliness	CGD debt periodicity	Time series availability	Domestic and external debt breakdown availability	Contingent liabilities availability
	Weight	2	1	2	3	1	1	3	2	1	3	1	2
Country	Score												
Belize	16	1	1	0	3	0	0	0	0	1	3	1	0
Brazil	39	2	1	2	3	1	1	0	2	1	3	1	2
Bulgaria	35	2	1	2	3	1	1	3	2	1	3	1	2
Chile	41	2	1	2	3	1	1	3	2	1	3	1	2
China	8	1	1	2	0	0	0	3	0	0	0	1	0
Colombia	32	2	1	2	3	1	1	0	2	1	3	1	2
Costa Rica	26	2	1	2	0	1	1	0	2	1	3	1	2
Croatia	37	2	1	0	3	1	1	3	2	1	3	1	2
Dom. Rep.	35	1	1	2	3	1	1	0	2	1	3	1	1
Egypt	38	2	1	2	3	1	1	3	2	1	3	1	2
Gabon	15	1	1	0	0	1	0	0	2	1	0	1	0
Ghana	12	1	1	0	3	1	1	0	2	1	0	0	0
Hungary	37	2	1	2	3	1	1	3	2	1	3	1	2
Indonesia	39	2	1	2	3	1	1	3	2	1	3	1	2
Kenya	24	1	1	0	3	1	1	0	2	1	3	1	2
Korea	30	2	1	2	3	1	1	0	2	1	3	1	2
Lebanon	26	1	1	2	3	1	1	0	2	1	3	1	0
Malaysia	26	2	1	2	3	1	1	0	2	1	3	1	2
Mexico	37	2	1	2	3	1	1	0	2	1	3	1	2
Morocco	36	2	1	2	3	1	1	0	2	1	3	1	2
Nigeria	13	1	1	2	0	1	1	0	2	1	0	0	0
Pakistan	28	1	1	0	3	1	1	3	2	1	3	1	2
Peru	38	2	1	2	3	1	1	3	2	1	3	1	0
Philippines	28	2	1	2	3	1	0	0	2	1	0	1	2
Poland	37	2	1	2	3	1	1	3	2	1	3	1	2
Romania	33	2	1	2	3	1	1	0	2	1	3	1	2
Russia	34	2	1	0	3	1	1	3	2	1	3	1	0
South Africa	39	2	1	2	0	1	1	3	2	1	3	1	2
Tanzania	19	1	1	2	3	1	1	0	2	1	3	1	0
Thailand	34	2	1	2	3	1	0	3	2	1	3	1	2
Tunisia	28	2	1	2	3	1	1	0	2	1	3	1	2
Turkey	37	2	1	2	3	1	1	0	2	1	3	1	2
Ukraine	25	2	1	2	3	1	1	0	2	1	3	1	2
Uruguay	39	2	1	2	3	1	1	0	2	1	3	1	2
Venezuela	31	1	1	0	3	1	1	0	2	0	3	1	2
Vietnam	4	1	0	0	0	0	0	0	0	0	0	0	0
Zambia	9	1	1	0	0	1	1	0	2	1	0	1	0

* Countries subscribing to the IMF Special Data Dissemination Standard (SDDS).

** Central Government Operations (CGO).
Timeliness: 1 month after the end of the reference period
Periodicity: Monthly
MGFS 1986: Identifies countries that use classification of fiscal statistics according to the IMF's *A Manual of Government Finance Statistics, 1986* (MGFS 1986).
GFSM 2001: Identifies if government accounting follows the definition and classification of the IMF's *Government Finance Statistics Manual, 2001* (GFSM 2001).

*** Central Government Debt (CGD).
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly
Amortization Schedule for CGD.
Preferably, dissemination of government debt service presented at least annually for a period of at least five years from the effective date of the debt data.
Annual data should be supplemented with quarterly data at least for the year immediately ahead.

Central Government Debt (CGD) ***			External Debt****								
Term break-down done by original maturity	Amortization schedule dis-seminated at least every 3 months	Amortization schedule presents contingent liabilities	External debt timeliness	External debt periodicity	Time series availability	Resident holdings of public debt issued internationally	Non-resident holdings of public debt issued domestically	Non-resident holdings of private debt issued domestically	Amortization schedule disseminated at least every 6 months	Amortization schedule presents private and public sector separation	
1	3	2	2	1	3	1	1	1	3	2	
											Country
0	0	0	2	1	3	0	0	0	0	0	Belize
1	3	2	2	1	3	1	1	1	3	2	Brazil
1	3	0	2	1	3	1	1	1	0	0	Bulgaria
1	3	2	2	1	3	1	0	1	3	2	Chile
0	0	0	0	0	0	0	0	0	0	0	China
1	3	0	2	1	3	1	1	1	0	0	Colombia
1	0	2	2	1	3	1	0	0	0	0	Costa Rica
1	3	0	2	1	3	0	1	1	3	2	Croatia
1	3	2	2	1	3	1	1	1	3	0	Dom. Rep.
1	3	0	2	1	3	1	0	0	3	2	Egypt
1	3	0	2	1	0	0	0	1	0	0	Gabon
1	0	0	0	1	0	0	0	0	0	0	Ghana
1	3	0	2	1	3	1	1	1	2	0	Hungary
1	3	0	2	1	3	0	1	1	3	2	Indonesia
0	0	0	0	1	3	1	0	1	0	2	Kenya
1	3	0	2	1	3	0	1	0	0	0	Korea
1	3	0	2	1	3	0	0	0	0	0	Lebanon
1	0	0	2	1	3	0	0	0	0	0	Malaysia
1	3	0	2	1	3	1	1	1	3	2	Mexico
1	3	2	2	1	3	0	1	1	3	0	Morocco
1	0	0	2	1	0	0	0	0	0	0	Nigeria
1	0	0	2	1	3	0	1	1	0	0	Pakistan
1	3	0	2	1	3	1	1	1	3	2	Peru
1	3	0	2	1	3	1	1	1	0	0	Philippines
1	3	0	2	1	3	1	1	1	0	2	Poland
1	0	0	2	1	3	0	1	1	3	2	Romania
1	3	0	2	1	3	0	1	0	3	2	Russia
1	3	2	2	1	3	1	1	1	3	2	South Africa
0	0	0	2	1	0	0	0	0	0	0	Tanzania
1	0	0	2	1	3	0	1	0	3	2	Thailand
1	0	0	2	1	3	0	1	1	0	0	Tunisia
1	3	0	2	1	3	1	1	1	3	2	Turkey
1	0	0	2	1	0	0	1	1	0	0	Ukraine
1	3	2	2	1	3	1	1	1	3	2	Uruguay
1	3	0	2	1	3	1	1	1	3	0	Venezuela
0	0	0	2	1	0	0	0	0	0	0	Vietnam
0	0	0	0	0	0	0	1	0	0	0	Zambia

Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly

**** External Debt.
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly
Amortization Schedule for External Debt.
It is important that data cover both public and private sector debt.
Preferably, amortization payments presented at least annually for a period of at least five years from the effective date of the debt data.
Annual data should be supplemented with quarterly data at least for the year immediately ahead.
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly

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V. Country Innovations in Investor Relations and Data Transparency

Brazil Conducts Survey of Investor Needs

Brazil has been an industry leader in sovereign IR, becoming the first country to meet all of the IIF's best practice criteria in March 2007. In 2009 the National Treasury of Brazil posted an evaluation questionnaire on its website to conduct a survey of its investor base. The Brazilian National Treasury IR Office used feedback gained from investors vis-à-vis the survey to refine the *Federal Public Debt Monthly Report.* Investors can expect a revamped report to be issued in October 2010. The new version of the report will contain two new elements: statistics on the return of the federal public bonds and information on public-debt bond holders. Brazil's efforts correspond to the IIF criteria concerning "Regular self-assessment of investor relations activities." However, the IIF also recognizes innovations that go beyond the 20 IIF criteria. Modifying data and reports to meet the needs of investors is a commendable innovation.

Bulgaria Listens to Investor Feedback

Since the new government took office in 2009, the responsibility for the Debt Management Directorate and IR activities has been shifted from the State Treasurer to a Deputy Minister. Bulgaria now satisfies the criterion concerning "Investor feedback reflected in policy decisions (+3 points)."[2] After conducting several surveys of government debt investors, the Ministry of Finance decided to diversify its debt profile by offering new maturities and euro-denominated securities. The Ministry plans to enable investors to register for a website subscription within the next year.

Colombia Strengthens IR Practices

In 2008, Colombia institutionalized IR practices and posted contact information for IR staff online. In 2009 Colombia gained 7 nominal points and in 2010 gained an additional 7 points. Over the past year, Colombia has made much progress in strengthening communication with investors and advancing its IR program. Colombia held conference calls in January and June 2010 (+1); furthermore, archives of the audio and related materials are available online (+1). Investors can reach the IR office via a general mailbox[3] or a web-based comment form (+2). Investors are able to register for website subscription (+1). Structural (i.e., legal, regulatory) information is available in English (+2).

Croatia Improves Provision of Policy Information

The Department for Public Debt Management within the Ministry of Finance manages communication with the investor community. Croatia has made considerable progress in employing multiple communication channels with investors. By actively involving senior officials in the investor relations process, Croatia has satisfied the criterion "Senior policy makers accessible to investors" (+2). A non-deal road-show to the United States is planned for the end of 2010. Croatia has made marked improvement in the areas of data and policy availability. Croatia now satisfies the criteria for macroeconomic data presented in a market-friendly format (+2), historical policy information available (+2), and forward-looking policy information available (+3).

Indonesia Holds Public Conference Calls and Improves Data Release Practices

Indonesia's Investor Relations Unit (IRU) has conducted quarterly investors' conference calls since December 2009 (+1). The conference calls have included speakers from Bank Indonesia and the Ministry of Finance. Subsequent calls were held in April, July, and August 2010. Playback of the conference calls is available online but only for a limited time.

Data release practices have improved considerably under the leadership of Bank Indonesia. Indonesia has gained points in the area of data release practices by providing time series on central

[2] This is the only criterion based on the perception of country authorities and not on IIF analysis.

[3] E-mail: oricolombia@minhacienda.gov.co

government debt (+3), by the availability of an amortization schedule for central government debt (+3), and by the amortization schedule for Indonesia's external debt (+3) presenting the private and public sectors separately (+2).

Lebanon Conducts Survey of Investor Needs

In the fall of 2009 the Ministry of Finance in Lebanon conducted a survey of investors needs with reference to its quarterly Debt and Debt Markets Report. Responses from the survey were reviewed and feedback incorporated, which translated into the following improvements: more data on the Lebanese economy (trade statistics, interest payments as a percentage of expenditures, and revenues), additional risk indicators (such as aggregate debt amortization profile), added time series for currency composition of debt and primary market rates, and other improvements in presentation such as the chronological listing of Eurobonds. Lebanon has satisfied the requirements for the criterion "Regular self-assessment of investor relations activities" (+1).

In addition, Lebanon has improved data release practices. The country has met the criteria for provision of domestic and external financing for central government operations (+1) and amortization schedule disseminated every three months for central government debt (+3).

Morocco Initiates Investor Contact List

The Investor Relations Office run by the Ministry of Economy and Finance in Morocco has instituted improvements to facilitate more frequent communication with investors. Investors are now able to register for a website subscription (+1) by clicking on the "Institutional Investors" icon on the Ministry of Economy and Finance homepage and then clicking on the "Subscribe to our Newsletter" icon.

Philippines Launches New and Improved Investor Relations Website and Initiates IR Training for Staff

In September 2010, the Investor Relations Office (IRO) of the government of the Philippines launched a new independent website.[4] The IRO was previously housed under Bangko Sentral ng Pilipinas and shared a website with the bank. The new website includes many features of a prototype IRO webpage. With the exception of the login requirement, the new website is easy to navigate. All of the key features of the website are clearly labeled and accessible from the website homepage. Statistics are centrally located on the webpage and provide investors with direct links to the data.

In June 2009, the IRO conducted a customized messaging training workshop to assist government spokespeople and IRO staff to enhance their communication skills. The IRO believes that the success of most government reform programs depends in large part on the effectiveness of the economic team in conveying its messages. In June 2010, the IRO conducted a two-day Investor Relations and Communications Training session attended by policymakers and technical counterparts from economic agencies. The workshop was meant to further enhance government officials' understanding and appreciation of the credit rating methodology and dynamics to facilitate the highest possible rating for the country.

Poland Launches IR Program

Poland has institutionalized IR activities and made several additional improvements to gain a total of 11 points. In 2009 Poland created a division within the Public Debt Department that is responsible for IR. The main activities consist of ongoing cooperation with domestic and international investors, as well as supervision over the Primary Dealership System in Poland. The Investor Relations Division has set up a general mailbox for inquiries, and investors may directly contact the Head of Investor Relations Division, Public Debt Department, Ministry of Finance, by e-mail.[5] Investors can subscribe to Poland's investor contact list via their website or by sending an e-mail (+1). Given these initiatives, Poland has satisfied the following criteria: Presence of institutionalized IR activities (+2); IR staff identifiable and reachable through websites (+3);

[4] http://www.iro.ph

[5] E-mail: sekretariat.dp@mf.gov.pl; robert.zima@mf.gov.pl

and web-based communication with investors (+2). The Ministry of Finance added additional content to its website on structural (i.e., legal, regulatory) information (+2). Poland also satisfies an additional criterion by providing reciprocal links to the Central Bank, Ministry of Finance, and other government agency websites (+1).

Sub-Saharan African Countries Improve Data Release Practices

Several Sub-Saharan African countries have made marked improvements in data transparency. For example, Ghana, Gabon, and Tanzania now provide time series data (+3) on central government operations and have made notable progress in presenting data in a user-friendly spreadsheet format. These ongoing efforts toward enhancing data release practices have been welcomed by market participants. Some Sub-Saharan African countries have signaled their intention to follow Gabon's and Ghana's lead in accessing international capital markets.

Turkey Conducts First Public Conference Call

The Turkish Treasury launched an IR program in August 2005. In the five years the program has been active, Turkey has become the second country to meet all 20 of the IIF best practice criteria, earning a weighted score of 38.[6] The Turkish Treasury conducted Turkey's first public conference call on May 11, 2010. The Treasury issued a conference call announcement and a link to a presentation entitled "Turkish Economy: Recent Developments, Outlook, Fiscal Rule, and Structural Reforms" a full day before the conference call. The call was available to all investors for replay on the web for one week following the call. The presentation from the conference call is available on the IR homepage under the heading "Announcements."

[6] The first country to meet all 20 criteria was Brazil in March 2007.

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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.

INVESTOR RELATIONS PRACTICES

Presence of institutionalized investor relations 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 IROs share a website with another government agency. In some cases a country can have institutionalized investor relations 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.

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.

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.

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.

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 e-mail.

Country subscribes to SDDS

The country must subscribe to the IMF's Special Data Dissemination Standards (SDDS), which were 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.

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. (See related section on data transparency for further detail.) Countries that meet this criterion score 15 or more out of a total of 42 points with respect to timeliness and periodicity criteria for these three areas of data.

In addition, 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.

Macroeconomic data presented in market-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.

Historical policy information available

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

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.

Structural information available

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

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 e-mail at least every 2 weeks.

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, a general e-mail box, specific e-mail 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.

Bilateral meetings with investors

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

Non-deal roadshow(s)

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

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 e-mail 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 criterion.

Archives of investor presentations and/or conference call related materials available on website(s)
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.

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.

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: conference calls, bilateral meetings, and non-deal roadshows.

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

DATA DISSEMINATION PRACTICES

We have assessed countries on the basis of 23 elements of data transparency. In addition to a country's subscription to the SDDS or 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 standards. 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 DSBB 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, rating 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 DSBB 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 Sovereign 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 practices by an IRO support investment in the public sector through the management of sovereign debt instruments while IPAs promote private sector investment. One can not 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 investor relations. 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 a two-way communication with investors. Press officers only deliver information in 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. Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets

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 behavior 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 problems become unmanageable. They also support creditor actions that can help to minimize market contagion. In cases where the debtor can no longer fulfill 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 interbank 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 interbank advances and continued service of other debt.

3. Good-Faith Actions

Voluntary, good-faith process. When a restructur-ing 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 forming 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. Applicability of the Principles for Stable Capital Flows and Fair Debt Restructuring

The *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* were first issued in 2004, following their general endorsement by the Group of 20. The Principles represent a widely accepted, voluntary approach to debtor-creditor relations, based on evolving best market practices. They are designed to promote stable capital flows and the prevention and orderly resolution of financial crises through enhanced transparency, increased dialogue, good-faith negotiations, and fair treatment. The Principles recognize the critical value of instruments such as collective action clauses and investor relations (IR) programs; the latter are being actively used by a small but growing number of sovereign borrowers as a framework for bolstering investor confidence, through actions consistent with the Principles.

Since the outbreak of the global financial crisis in 2008, the effective application of the Principles has helped safeguard access by emerging market countries to external financing flows from the private sector, during a time of exceptional stress in the international financial system. Countries with strong policy performance and active IR programs have clearly benefited relative to others during periods of market turbulence. In addition, in cases in which debt-servicing problems arose, several emerging-market and developing countries have achieved mutually satisfactory debt-restructuring outcomes through dialogue and good-faith negotiation with their creditors, in line with the Principles. Recent experience also demonstrates the value of good-faith negotiations in achieving a successful debt reduction under the enhanced Highly Indebted Poor Countries (HIPC) and Multilateral Debt Reduction Initiatives (MDRI), with a high level of private creditor participation.

Over the same period, however, there have been several cases in which debt restructuring has proceeded in ways that were inconsistent with the Principles, resulting in unnecessary and avoidable costs to both debtors and creditors, with the risk of undermining prospects for more stable market conditions and the restoration of sustainable capital flows. A few of these cases involved sovereign debt restructuring or buybacks, but in addition, concerns have been raised by cases involving the restructuring of debt issued by non-sovereign or quasi-sovereign entities (entities with a minority or majority share participation by the state), in which the state has played a major role in influencing the legal framework governing the relations between debtors and creditors and other parameters of debt restructuring, besides any use of fiscal resources. In these cases, actions by the central government have influenced the legal or contractual relations with creditors, the handling of relations with creditors, and the negotiating positions taken by debtors, raising several concerns, including retroactive alteration of governing law or debt resolution legal frameworks, limited cooperation with creditors, and discrimination among creditors.

The purpose of this document is to clarify the applicability of the Principles in cases of non-sovereign restructuring, as well as several other issues that have arisen recently. The objective is to help both borrowers and the financial community—whether acting as lenders and investors or in an advisory capacity—to have a clearer understanding of the practices that are considered to be consistent with stable international capital flows and fair debt restructuring, for the long-term benefit of all participants. This document has been prepared on the basis of broad-based consultations among several sovereign issuers and the private investor community, with representatives from international financial institutions participating as observers. As is the case for the Principles themselves, the provisions of this document are intended to be applied flexibly on a case-by-case basis. Application of the Principles remains strictly voluntary; no party is legally bound by the provisions of this document, and nothing in it (or in any party's endorsement of the document) shall be deemed to constitute a waiver of any such party's legal rights.

1. Applicability of the Principles in Non-Sovereign Debt Restructuring

a. Circumstances in Which the Principles Are Applicable

The Principles were devised as a way to deal with issues raised by sovereign debt management and debt restructuring. However, similar issues have arisen in recent years in cases in which the authorities have intervened (in the form described above) in private-sector banks or in quasi-sovereign entities, which they viewed as domestically important. More specifically, in some instances the authorities have established a new legal framework for the restructuring of the domestic and international obligations of the intervened firms, having judged that the existing legal framework was inadequate and needed to be replaced. In other instances, the authorities have decided to bypass the existing legal framework and to provide instead more direct guidance (and in some cases, financial support) for the debt-restructuring process. In various ways, such cases have raised concerns about retroactive alteration of contractual rights, limited transparency, inadequate cooperation with creditors, lack of good-faith negotiations, and discriminatory treatment among creditors.

In practice, once the sovereign is engaged in setting the key parameters of the debt-restructuring process, the appeal and logic of applying the cooperative, market-based approach embodied in the Principles to non-sovereign restructurings become compelling. At the same time, the context needs to be taken carefully into account. First, in the event that debt restructuring or resolution of a non-sovereign entity is proceeding in a normal manner under existing local law, there would be a presumption that the procedures provided for under local law will be observed and would run their normal course. If, however, the existing legal framework were judged to be inadequate and altered retroactively or bypassed, creditors would reasonably be expected to be involved in a mutually beneficial process of consultation and dialogue. Second, the nature of cooperative processes involving creditors may at times need to take into account the urgency of containing a financial crisis and avoiding contagion. It is important to note that the broadening of the applicability of the Principles to the cases of non-sovereign or quasi-sovereign entities in which the state plays a major role in influencing or modifying the legal and other parameters of debt restructuring does not imply an extension of the sovereign's financial responsibilities to private-sector debtors or the debt of other non-sovereign or quasi-sovereign entities for which the state does not intervene in the above fashion.

b. Application of the Principles

The Principles contain four key elements—transparency, dialogue, good faith, and fair treatment. Under the types of circumstances discussed above, the sovereign would benefit if it played an active role in promoting the application of provisions of the Principles in relevant cases of non-sovereign or quasi-sovereign debt restructuring. In cases in which a new legal framework is specified by the state, the government will need to take appropriate action to ensure the application of the Principles in the establishment of the new legal framework and in providing guidance for its implementation. As part of this process, timely consultation with affected creditors would be appropriate in the design of the new framework for debt restructuring and resolution, including *inter alia* the law governing the new instruments issued in the restructuring process. In cases in which non-sovereign and quasi-sovereign restructuring operations involve more direct official guidance and/or financial support, this could also be guided by the provisions of the Principles.

Concerns about transparency and access to information have arisen in the cases discussed above, and outcomes could have been improved—both in the short and longer term—by making available more comprehensive and timely information to all affected parties. Accordingly, governments would need to play a central role in making sure that such considerations are reflected in the design and implementation of the framework for debt restructuring and resolution, in particular with regard to provisions for transparency and access to information, as well as debtor-creditor cooperation, inclusive dialogue, good-faith negotiations, and the avoidance of discrimination among creditors. It would also be helpful to make reference to or build on the provisions of the best practices for creditor committees. In this context, it is reasonable to expect non-sovereign and quasi-sovereign debtors to observe the relevant provisions of the Principles.

2. Special Status of Trade Finance

The Principles state that *"Debtors and creditors recognize in that context that typically during a restructuring, trade lines are fully serviced and maintained."* They further provide that *"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."*

These provisions reflect the special role of trade finance, both as a crucial underpinning of the global trading system and as a means of sustaining growth and contributing to the maintenance or restoration of external financial viability in countries that are experiencing debt-servicing problems. While a fair and comparable treatment of all creditors in bearing the burden of any debt restructuring remains a major consideration, experience over the years has shown that an exclusion of short-term trade credits from debt restructuring has been mutually beneficial to both debtors and creditors and the global financial community in general, by helping avoid a disruption of exports and imports and output growth. If trade finance lines are cut off when debt-servicing difficulties emerge, the result can be a vicious cycle in which a country ceases to be able to import and export normally, growth is undermined, and balance of payments financing gaps balloon out of control. In recognition of these potential adverse dynamics, particularly in the context of the emerging markets' debt crises of the 1980s and 1990s, special efforts have been made to ensure that trade credit lines were maintained, with parallel undertakings by borrowing countries to continue servicing the corresponding external obligations. Thus, the normal and customary state of affairs remains that trade credits are excluded from debt restructuring.

In a very few recent instances, proposals have emerged to include trade finance obligations in debt restructuring—typically in the context of the restructuring of the obligations of intervened commercial banks of systemic importance to the countries. Such proposals may have been motivated, in part, by a desire of other creditors to maximize the net resources available for the settlement of restructured claims. But the specific exception to inter-creditor equity for short-term trade credits and interbank advances is by now well established and has an important grounding in systemic stability concerns. Moreover, looking beyond issues of systemic stability regarding growth and debt dynamics in restructuring cases, there are important potential implications for the cost and availability of trade finance worldwide, should its special status be eroded.

Thus, it is appropriate to reaffirm (and dispel any possible uncertainty about) the intent of the Principles in this regard. It should be clear that typically, during a restructuring, trade lines are fully serviced and maintained. Correspondingly, in line with general practice, such credits as short-term trade related facilities and interbank advances are expected to be excluded from restructuring agreements. However, in view of concerns about possible misclassification, it is important for both debtors and creditors to maintain proper documentation of these claims.

3. Behavior Expected from Debtors and the Creditor/Investor Community

The recent experience of emerging markets in accessing international capital markets has demonstrated the value of proactive IR in preventing debt crises and maintaining creditor support at times of severe financial turbulence. At the same time, the recent experience in both sovereign and non-sovereign debt restructuring cases underscores the potential benefits that could be realized by all parties if the provisions of the Principles and of the *Best Practices for the Formation and Operation of Creditor Committees* are effectively adhered to. There are implications from the Principles for the behavior that is expected of both debtors and private lenders and investors—whether the latter are acting as creditors or in an advisory capacity. The formation of creditor committees, when advisable, should entail consultations among debtors and creditors to help ensure that these committees are appropriately representative and composed of members with adequate credentials rather than being appointed by debtors. Such creditor committees would be of critical importance for reaching timely and mutually satisfactory debt-restructuring outcomes through good-faith negotiations.

4. Applicability of the Principles to Other Sovereign Debtors

In addition to sovereign debt-restructuring cases involving emerging markets, experience has shown that observance of the Principles is also extremely useful for low-income and other developing countries seeking debt reduction from their private external creditors, including under the HIPC and MDRI Initiatives. In addition, the Principles have also proved useful in cases of non-sovereign debt restructuring, and for countries not traditionally thought of as emerging markets, as described in this document. To accurately reflect the range of applicability of the Principles, their name should be changed to "Principles for Stable Capital Flows and Fair Debt Restructuring."

Annex III. Best Practices for the Formation and Operation of Creditor Committees

I. INTRODUCTION

The best practices for the formation and operation of Creditor Committees are based on extensive discussions among members of the IIF's Working Group on Crisis Resolution. Additionally, these best practices have been broadly endorsed by the Principles Consultative Group. The PCG consists of senior officials from a broad cross section of emerging market economies and senior bankers and investors involved in emerging markets finance, many of whom have been involved in the formulation of the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets. This Group has been engaged in both encouraging and monitoring the practical application of the Principles through assessments of a variety of country cases. The PCG's input has been important in the shaping of these best practices in order to encourage participation from debtors 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. 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.

The best practice principles for the formation and operation of Creditor Committees are based on established practices of the traditional London Clubs 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.

Going forward, support from other key bond investors should also be sought. The best practice principles should also be explained to the IMF and G7 officials in order to facilitate supportive official sector policies, in particular as the IMF reviews its lending into arrears policy. It is important 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. Such negotiations are also the operational consequences of the restoration of Collective Action Clauses (CACs), which have been welcomed by the G7 and the IMF.

II. THE ROLE OF GOOD-FAITH NEGOTIATIONS AND CREDITOR COMMITTEES IN THE PRINCIPLES FOR EMERGING MARKETS

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 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 intend that the final result of the restructuring process should be obtained through cooperative interaction between the debtor and its creditors. (See above section on good faith.) 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 balance of payments 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.

Recent experience has been mixed, with authorities taking different approaches that were not in all cases seen by creditors as fully consistent with the Principles. All of the cases have been complex, involving a diverse set of market participants, instruments, and currencies. In many occasions, creditors have organized themselves into Creditor Committees at an early stage. In some cases, debtors have negotiated in good faith with Creditor Committees to reach restructuring agreements. In others, ad hoc Committees have been formed; debtors have preferred to consult with these Committees as well as with other creditors on a bilateral basis toward the formulation of an exchange offer. In some cases, the approach by sovereigns has been seen by creditors as coercive. In such instances, the spontaneous formation of Creditor Committees has been frequently resisted by the debtor country with the argument that the situation does not call for a Committee or that the Committee is not representative.

As the Principles will be reviewed from time to time and possibly updated, the circumstances under which Creditor Committees are the best avenue for a restructuring may be reviewed. For example, in one recent case, the restructuring with the private sector was preceded by a restructuring with the Paris Club with the usual request for comparability of treatment. The Principles do not "require" negotiations with a Committee in non-default cases, but the question has been raised whether a Committee approach should be preferred in circumstances in which a restructuring is mandated by the Paris Club. This seems to be a logical consequence of the comparability of treatment principle.

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

In addition, in October 2004 the International Primary Market Association (IPMA)[7] released standard collective action clauses for fiscal agency agreements under English law that contain provisions for the appointment of a single Creditor Committee.

[7] On July 1, 2005, IPMA merged with the International Securities Market Association (ISMA). The combined entity is known as the International Capital Market Association (ICMA).

III. 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. 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.

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

Much of the debate has centered on the issue of "representativeness" of a Creditor Committee. In some cases, issuers' legal advisors have questioned whether Committee members have secured mandates from other members of the creditor community in order to represent them. Such a request goes against the grain of reality, however. Historically, members of Creditor Committees have not "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 would 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"[8]) 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.

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.

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

[8] The "creditor community" includes banks, fund managers, hedge funds, and retail investors.

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), an external representative could be appointed by either an individual fund or a group of fund creditors and investors, if considered necessary. 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 hold or represent a substantial amount of claims and 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.

D. Speed of Process

1. 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.

2. Creditors and investors should consider approaches to internal coordination that expedite rather than delay the process.

3. 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.

4. 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.

5. 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 is considered confidential.

3. Under the code, parties have 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 must 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 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. Both debtor and creditors should avoid commenting on the negotiations.

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. Creditor 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 system should be leveraged as a communication tool in cases where a substantial amount of debt is held at the retail level.

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