


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

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REPORT OF THE PRINCIPLES CONSULTATIVE GROUP (PCG) ON 2013 IMPLEMENTATION OF THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING* OCTOBER 2013

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I. OVERVIEW

The uneven growth trends between mature and emerging market economies in recent years and the unprecedented quantitative easing and other unconventional monetary policy (UMP) measures by major central banks have reinforced the push and pull factors that stimulated higher net private capital flows to emerging markets. However, the recent announcement of a pending tapering of the quantitative easing by the U.S. Federal Reserve, the associated heightened market volatility, and weakening growth in emerging markets have begun to reverse, in part, these push and pull influences on net private capital flows to these countries. Emerging markets currencies have been depreciating in recent months, with the reversal in portfolio equity and bond flows.

According to the latest estimates by the Institute of International Finance (IIF), the net private capital flows to 30 major emerging markets monitored by the IIF would ease from \$1,181 billion in 2012 to \$1,145 billion in 2013 and \$1,112 billion in 2014. The volatility in financial markets, the prospective tapering and eventual exit from UMP, and the associated increase in interest rates—coupled with internal vulnerabilities and rigidities—have magnified the policy challenges faced by key emerging market economies. At the same time, however, net private capital outflows from emerging market economies, as a whole, are projected to rise further to about \$1 trillion a year in 2013 and 2014, in addition to the continued build-up of official reserves of some \$400 billion a year.

In such a difficult and volatile environment confronting sovereign debt markets, the *Principles for Stable Capital Flows and Fair Debt Restructuring* continue to serve as a useful framework for crisis prevention and resolution, guiding, in particular, sovereign debt restructurings from Greece to the Caribbean. The *Principles* essentially constitute a voluntary code of conduct between sovereign debt issuers and their private sector creditors that was agreed to in 2004 and endorsed by the G20 Ministerial Meeting in Berlin in November 2004 (see

Annex I). Until October 2010, the *Principles* applied only to sovereign issuers in emerging markets, but their applicability has since been broadened to encompass all sovereign issuers, as well as cases of debt restructurings by non-sovereign entities in which the state plays a major role in influencing the legal and other key parameters of debt restructurings.

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 capital flows and supporting financial stability and sustainable growth. They promote crisis prevention through the pursuit of strong policies, data and policy transparency, and open dialogue with creditors and investors (particularly under investor relations programs [IRPs]), and effective crisis resolution through *inter alia* good-faith negotiations for fair debt restructuring deals with representative groups of creditors.

The *Principles*, as a voluntary code of conduct, depend for their implementation on the good will of the debtors and creditors concerned, as well as the moral suasion exercised informally by two informal governing or overseeing bodies—the *Group of Trustees* and the *Principles Consultative Group* (PCG).

The experience since the launching of the *Principles* in 2004 has demonstrated the benefits that result from their effective implementation in helping safeguard access to private external financing at times of stress in the global financial system (see Box 1). Countries with strong policy performance and active IRPs have clearly done well relative to others during recent periods of market turbulence.

Against the challenging global policy setting outlined above, the discussions over the past year among the members of the PCG—which include senior officials from developed and emerging market countries, as well as senior bankers and investors—have continued to focus on the review of developments in international capital and sovereign debt markets and developments in evolving country

Box 1. Benefits of Implementing the *Principles*

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

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

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

In cases where debt restructuring is deemed unavoidable, the *Principles* encourage cooperation between debtors and creditors 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 are 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. 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.

cases of sovereign debt restructurings. More specifically, the PCG discussions on broader issues were particularly extensive over the past year. First, the PCG discussions covered the uneven trends in output and employment growth in advanced and emerging market economies and the policy challenges faced by emerging markets in coping with the impact of unconventional monetary policy measures by major central banks on net private capital flows. Second, the PCG monitored closely the evolving policy framework for managing the sovereign debt crisis in the Euro Area, and the new policy initiatives introduced by the authorities. Third, the PCG was kept informed of developments in the ongoing litigation against Argentina by hold-out creditors before U.S. courts.

Finally, the PCG discussed the evolving debate on the assessment of the recent experience with sovereign debt restructurings and on alternative approaches to the modalities for such restructurings. This discussion has focused *inter alia* on the effectiveness of the current contractual, market-based framework for sovereign debt restructuring (based on the guidelines underlying the *Principles*) both in crisis prevention and, when necessary, in delivering timely and adequate debt relief; the role of good-faith negotiations and private creditor committees; and the possible further refinements in collective action clauses, including aggregation clauses, and other aspects of creditor engagement. The PCG emphasized that the contractual approach as embodied in the *Principles* has worked well

in practice; pointed to the strong benefits to all stakeholders from adherence to the voluntary, market-based approach of the *Principles* (as reinforced by the *Addendum to the Principles*); and underscored that it remains a superior framework for crisis prevention and resolution.

On country issues, the PCG followed closely developments in Greece, Cyprus, and other crisis countries in the Euro Area; discussed and assessed

the experience with debt restructurings in Belize and Jamaica, and the unfolding debt restructuring situation in Grenada; drew lessons from the overall recent debt restructuring experience in the Caribbean in general; and was kept informed of the continuing efforts of private creditors and the winding-up boards of two of the restructured banks in Iceland to conclude composition agreements in the context of the prevailing capital controls regime.

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 and other debtor countries through enhanced transparency, dialogue, good-faith negotiations, and equal treatment of creditors. The implementation of the *Principles* is based on the cooperation and partnership between issuers and investors that was evident during the discussion that led to their creation. The 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 other debtor countries and encouraging 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 debt restructuring process in appropriate cases; and
6. Helping ensure the continued relevance of the *Principles* in light of changing characteristics of international capital and sovereign debt markets.

The *Group of Trustees* is the guardian of the *Principles*. The Group consists of 46 current and former leaders in global finance with exceptional experience and credibility. The Group has four Co-Chairs. The current Co-Chairs of the Group are **Agustín Guillermo Carstens**, Governor of Banco de México; **Christian Noyer**, Governor of Banque de

France; **Zhou Xiaochuan**, Governor of the People's Bank of China; and **Toshihiko Fukui**, former Governor of the Bank of Japan (see Annex III for the list of all members of the *Group of Trustees*).

The Trustees meet once a year to review the progress being made on the implementation of the *Principles* within the framework of the international financial architecture.

The Group's mandate includes

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

The Group oversees the work of the ***Principles Consultative Group (PCG)***, a select group of finance and central bank officials with senior representatives of the private financial community monitoring and encouraging the practical application of the *Principles*.

The PCG has 29 members, many of whom were instrumental in the formulation of the *Principles* (see Annex IV for a list of the PCG members). The membership of the Group has increased since its first meeting in 2005 to represent more adequately the evolution of global finance in emerging markets and other debtor countries. The PCG maintains an appropriate balance between private and public sector members, as well as membership balanced in geographical scope.

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 in which significant progress has been made, as well as others that are facing market access difficulties;
- Consider the implications of developments in global capital markets for emerging market economies and other sovereign debtors 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.

International Monetary Fund (IMF) staff (from the Strategy, Policy, and Review Department

and from the Monetary and Capital Markets Department) and a representative from the Federal Reserve Bank of New York have, for some time, joined PCG discussions as observers. Additional observers from the European Investment Bank (EIB), 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 positive involvement of the representatives from international financial institutions provided further evidence of broad support for the *Principles*' implementation process.

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

III. PCG DISCUSSIONS ON REGIONAL AND COUNTRY CIRCUMSTANCES

a. Annual Meeting of the *Group of Trustees*

At their last annual meeting, on October 14, 2012, in Tokyo, Japan, on the occasion of the joint Annual Meetings of the IMF and the World Bank and the parallel Annual Membership Meeting of the IIF, the Trustees took note of the comprehensive report provided to them by the PCG and welcomed the PCG's effectiveness in providing feedback to a range of authorities and private creditors over the previous 12 months on the implementation of the *Principles*, policy options, and adjustment needs.

The Trustees at their meeting noted the weakening global economic recovery and the persistence of downside risks stemming in part from the continuing Euro Area sovereign debt crisis. The slow growth and risk factors in mature economies and the ongoing bank deleveraging process had contributed to volatile net private capital flows to emerging markets. The Trustees welcomed the new policy initiatives adopted by Euro Area authorities and institutions to address concerns in sovereign debt markets and strengthen the Euro Area banking system.

The Trustees reaffirmed their confidence in the value of the *Principles*, which 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 and supporting financial stability and sustainable growth.

They welcomed the successful completion of voluntary debt exchange agreements for Greece and St. Kitts and Nevis, reached through good-faith negotiations with private creditors that were consistent with the *Principles*. However, some aspects of the process through which the actual Greek debt exchange deal was reached, and some specific features of the coverage and terms of the deal, raised some concerns going forward. The Trustees noted in particular that the historic debt exchange for Greece—the first voluntary pre-default debt restructuring in mature economies—had

demonstrated and underscored the validity and usefulness of resolving even the most difficult sovereign debt problems in a manner consistent with the cooperative, market-based guidelines established by the *Principles*, with major benefits not only for the parties directly involved, but also for the Euro Area as a whole and global financial stability in general.

In this context, the Trustees strongly welcomed the overall findings and recommendations of the *Joint Public-Private Committee on the Strengthening of the Framework for Sovereign Debt Crisis Prevention and Resolution*, set up in March 2012 to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere; draw appropriate lessons; and make recommendations on the strengthening of the existing framework for sovereign debt crisis prevention and resolution as embodied in the guidelines of the *Principles*. The Trustees endorsed the *Joint Committee's* recommendations, summarized in an *Addendum to the Principles* (Annex II), as a very useful amplification of the practical guidance for the effective implementation of the *Principles* in the evolving international financial system.

The Trustees welcomed the confirmation by the *Joint Committee's* overall assessment that the *Principles* remain an appropriate, relevant, and effective framework for sovereign debt crisis prevention and resolution. Their fundamental emphasis on sound policies, data and policy transparency, and active investor relations programs by debtors is of critical importance in crisis prevention. Moreover, the *Principles'* underlying guidelines for voluntary, cooperative, market-based procedures for debtor-creditor dialogue and good-faith debt restructuring negotiations remain an essential cornerstone of sovereign debt crisis management and resolution and should continue to guide the interaction between sovereign issuers and their creditors. The Trustees stressed that such a cooperative approach would facilitate an early restoration of market access,

which is of critical importance in achieving debt sustainability over time.

The Trustees further noted that, since the agreement on the *Principles* in 2004, a growing number of sovereign borrowers have recognized the importance of active investor relations programs and strong data dissemination practices as tools to strengthen their relationship with the investor community and have invited other economies to consider adopting such programs. Especially in times of increased market stress, the Trustees emphasized that it is critical not to overlook the importance of the crisis prevention aspect of the *Principles*.

b. Overview of PCG Discussions

Over the past year, the PCG continued its normal practice of holding quarterly conference calls to review developments in international capital and sovereign debt markets and developments in evolving country cases of sovereign debt restructurings.

In view of the ongoing major developments in global financial and sovereign debt markets, the PCG discussions on broader issues were particularly extensive over the past year. First, the discussions covered the uneven trends in output and employment growth in advanced and emerging market economies and the policy challenges faced by emerging markets in coping with the impact of these trends and of the quantitative easing and other unconventional monetary policy measures by major central banks on net private capital flows. The announced intention by the U.S. Federal Reserve to taper off its quantitative easing in the months ahead has given rise to some market volatility in global financial markets and the exchange rate and bond/equity markets in emerging markets.

Second, the PCG monitored closely the evolving policy framework for managing the sovereign debt crisis in the Euro Area, the new policy initiatives to establish a single supervisory mechanism as one of the needed pillars for a regional banking union, and the initiatives to enhance market confidence and reverse the negative feedback loops between sovereign debt markets and bank balance sheets.

Third, the PCG was kept informed of developments in the ongoing litigation against Argentina by hold-out creditors before U.S. courts and the views expressed by analysts and others on the broader potential implications for future debt restructurings and the international payments system. Finally, the PCG discussed the evolving debate on the assessment of the recent experience with sovereign debt restructurings and on alternative approaches to the modalities for such restructurings. These issues are covered in detail in Chapter IV. In this discussion, the PCG pointed to the strong benefits to all stakeholders from adherence to the voluntary, market-based approach of the *Principles* (as reinforced by the *Addendum to the Principles*) and underscored that it remains a superior framework for crisis prevention and resolution.

On country issues, the PCG followed closely developments in Greece, Cyprus, and other crisis countries in the Euro Area; discussed and assessed the experience with debt restructurings in Belize and Jamaica, and the unfolding debt restructuring situation in Grenada; drew lessons from the overall recent debt restructuring experience in the Caribbean in general; and was kept informed of the continuing efforts of private creditors and the winding-up boards (WuBs) of two of the restructured banks in Iceland to conclude composition agreements in the context of the prevailing capital controls regime.

c. PCG Discussion of Country Cases

1. Greece and Cyprus

The PCG continued to monitor closely Greece's ongoing reform efforts under its ambitious economic reform program, supported with assistance from the Euro Area and the IMF, following the historic and unprecedented debt exchange in March–April 2012. The background and the key features of this debt exchange were covered in detail in the *2012 Implementation Report* and in the *Joint Committee Report*. The focus of the PCG discussion was on the progress by Greece to implement the envisaged further fiscal consolidation and the targeted shift

to primary budget surpluses; the restructuring of the banking system; and the broad range of tax collection and administrative reforms and other productivity-enhancing structural reforms. Effective implementation of these reforms is critical to facilitating the targeted resumption by Greece in 2014 of positive economic growth after five years of deep output contraction, and thus pave the way for regaining market access and achieving debt sustainability in due course.

The PCG noted the €10 billion voluntary debt buyback operation undertaken by Greece in December 2012 and the fact that the program has remained on track since late 2012, even though there have been continued slippages in tax collections, civil service administrative reforms, and the privatization program. By September 2013, the key issues dominating the review with the Troika related to the means of securing financing assurances for the projected financing gap of €11 billion during 2014–2015, and the potential additional assistance/Euro Area official debt relief that could be provided by early 2015 to ensure that Greece's debt-to-GDP ratio declines to well below 110% by 2022 (it is currently projected at 114% in the latest IMF report). In addition, German and Greek officials have stated that a new official assistance program for Greece might be considered.

The PCG also closely followed economic and financial developments in other crisis countries in the Euro Area, in particular, Cyprus, where the negotiations on the €10 billion Euro Area/IMF financial assistance program were concluded in late March 2013. The most noteworthy aspect of this program was the novel approach taken to recapitalize or restructure the two large ailing Cypriot banks and scale down the overall size of the banking system in relation to Cyprus's GDP. This approach entailed the bailing-in of 100% of unguaranteed deposits in one of the banks (Laiki Bank) that closed down and 47.5% of such deposits in the other bank (Bank of Cyprus), as well as the imposition of restrictions in the use of the remaining bank deposits and capital controls (Cyprus is the only country in the Euro Area with restrictions on capital outflows and external current account transactions). The closure of Laiki and the forced sale of Cypriot bank branches in Greece

have facilitated a major reduction in the size of the banking system from its initial large size of about 800% of GDP toward the Euro Area average of 350%.

A restructuring of public debt of Cyprus was not considered under the program, but some holdings (amounting to €1 billion) of public debt held by domestic banks maturing over the next few years have been restructured voluntarily (exchanged with new bonds at the same coupon with longer maturities of around five years).

Cyprus's program remains on track (the first review was completed in September 2013), the restrictions on bank deposits have been eased gradually, but the capital controls remain in force for the time being. They will be lifted once confidence in the banking system has been reestablished and the bank restructuring process is advanced. It is noteworthy that the feared severe contraction of economic activity did not materialize in the first half of 2013, and the decline in output was contained at around 4–5% on an annualized rate in the first two quarters. Real GDP is projected by the Troika to decline by 8.7% in 2013 and by 3.9% in 2014.

2. Debt Restructurings in the Caribbean

Following the sovereign debt restructuring by St. Kitts and Nevis in March 2012, Belize and Jamaica successfully completed new debt restructuring negotiations in early 2013, after earlier restructurings in 2007 and 2010, respectively. Grenada has also announced its intention to seek a new debt restructuring, and discussions with its creditors are ongoing. With their major vulnerabilities arising from their small economic size, heavy dependence on tourism or commodity exports, and frequent hurricanes, the countries in the Caribbean have experienced repeated debt restructurings in recent years.

Belize's debt restructuring was concluded after good-faith negotiations with a representative committee of foreign bondholders of a \$548 million superbond that consolidated Belize's external debt after the 2007 restructuring (Box 2). The main features of the debt restructuring were the fact that it covered only this bond and not domestic public debt; it did not address disputed claims by other

Box 2. Belize—Successful Conclusion of Debt Restructuring through Good-Faith Negotiations

Following the announcement by the government of Belize in June 2012 of its intention to restructure the 2029 \$547.5 million superbond (which replaced a range of other bonds and loans under the terms of Belize's 2007 public debt restructuring), private bondholders formed a representative creditor committee that initiated frequent contacts between its financial advisors and those of the government. In parallel, the government of Belize continued to issue detailed public announcements on its debt exchange offers and economic policy outlook and on the progress made in the discussions with creditors.

On September 20, 2012, Belize made an \$11.7 million interest payment on its missed coupon, or 50% of interest due to bond creditors (but not enough to avoid default), after missing an August 20 deadline for payment, as a sign of good faith. The bondholder committee said it would not pursue legal action for an additional 60 days as a good-faith measure to allow room for negotiations on debt restructuring. Direct, constructive, good-faith negotiations commenced in early October 2012, after Belize and the members of the bondholder Coordinating Committee signed a confidentiality agreement, including a 30-day restriction on the trading of the bonds.

The debt restructuring negotiations between the authorities of Belize and the bondholder committee came to a successful voluntary agreement on February 15, 2013. Despite some initial concerns about the burden sharing and the dynamics of the negotiation process, the eventual negotiations were consistent with the *Principles* and based on good-faith efforts, though one issue that arose was the role that should be played in the negotiations by other commercial creditors and investors with disputed claims against the state. The bondholder committee invoked the provisions of the *Principles* in several public statements during the course of the negotiations. Belize also agreed to reimburse a large portion of the creditor committee's expenses for legal and financial advisors. It is noteworthy that Belize's debt restructuring, as in 2007, took place without an IMF-supported program. The conclusion of the regular IMF Article IV consultation discussions were, in fact, delayed until after a debt restructuring agreement was reached.

Based on the voluntary agreements reached, on February 15, 2013, Belize formally launched a debt exchange offer that entailed the replacement of the existing private bondholder claims after a 10% nominal upfront haircut, with a new bond maturing in 2038 (25 years eventual maturity, with semiannual capital repayments commencing in 2019) and the capitalization of unpaid principal and interest and the accrued but not paid interest. The new bond involves a reduction in the coupon from 8.5% under the old bond to 5.0% in the period to August 2017 and a step up to 6.767% thereafter. The 2038 bond was issued on March 20 under New York law, inclusive of collective action clauses (CACs), with an aggregated face value of U.S. \$529.9 million. At the close of the offer on March 8, the government announced that the participation rate amounted to 86.17%, which, under the terms of the debt exchange offer, allowed the activation of the CACs of the old existing bond and thus a final participation rate of 100%. According to analysts' reports at the time, with an exit yield of 12%, the new bond has a net present value (NPV) of about 56.75% and will provide sizable cash flow benefits to Belize of the order of \$273 million over the next 10 years, even though it was noted that the deal may have left Belize still highly indebted.

The terms of the debt exchange comprised some features that reinforce the protection of the claims of private creditors. These features included (a) a principal reinstatement clause (requiring the capitalization of 11.11% of the principal balance of the new bond—the equivalent of the upfront haircut—if any payment default occurs over the next 10 years (similar provisions had been used in the debt restructurings by Ecuador [2010], Seychelles [2010], and St. Kitts and Nevis [2012]); (b) a most-favored creditor undertaking (requiring the extension to bondholders of any more favorable terms that might be granted to external creditors with foreign currency claims against Belize—the claims by the owners of the nationalized utilities remain disputed and under litigation at this stage); (c) the commitment of Belize to accept bondholder engagement in any future events of default (negotiation with a representative creditor committee and reimbursement of its expenses); and (d) a prefunded indemnity of the trustee selected to represent the interests of the creditors.

Finally, it is noteworthy that in light of the ongoing litigation against Argentina in U.S. courts, the debt exchange offer included, in the prospectus, an explicit indication as a risk to creditors that Belize cannot assure creditors that the servicing of their bonds would not be affected by litigation by other creditors against Belize. The Offering Circular for the transaction also disclosed that Belize did not understand the *pari passu* covenant in the bonds to require ratable payment of all items of its public debt.

creditors or investors; and did not involve an IMF-supported program. In discussing this restructuring, the PCG welcomed the fact that, despite some initial concerns, constructive, good-faith negotiations took place between the authorities and a highly representative private creditor committee, with adequate data and policy transparency, consistent with the *Principles*.

Jamaica's debt restructuring covered only domestic public debt and was concluded after informal discussions between the authorities and major domestic investors, based on a (Box 3). The debt restructuring was a precondition for a new IMF-supported program, and the terms were designed to alleviate their impact on the recapitalization needs of domestic banks. The PC macroeconomic framework agreed to with the IMF G noted the special circumstances faced by Jamaica and welcomed the efforts made to reach a voluntary, negotiated solution, in line with the *Principles*.

Finally, the PCG followed closely the evolving public-debt restructuring process, the second in eight years, in Grenada. In March 2013, Grenada's newly elected government announced that the country did not have the financial resources to honor its public debt on current terms, and is already in arrears with regard to the coupon payment on the 2025 \$194 million bond denominated in U.S. and East Caribbean dollars, which entails a coupon that increases from 4.5% to 6.0% in September 2013 and to 9.0% by 2018 (Box 4). The government also indicated that it will seek a comprehensive restructuring of its public debt. In early May 2013, private foreign creditors, holding about 75% of the outstanding value of defaulted bonds, formed a bondholder committee and have already initiated debt restructuring negotiations with the authorities. This is a fairly complicated debt restructuring case for several reasons. First, foreign bondholders account for only 30% of Grenada's public debt, and participation of other creditors would be needed to facilitate an adequate improvement in Grenada's debt sustainability outlook. Some 24% of the debt is held by multilateral creditors, 10% by official bilateral creditors, and 44% by domestic creditors. Second, one creditor who did not participate in the previous debt restructuring has launched litigation against Grenada in the U.S.

courts. This litigation is still ongoing, and it may influence the debt eligible for restructuring. Finally, Grenada has initiated negotiations with the IMF on a new three-year adjustment program, which would likely require completion of a satisfactory debt restructuring as a precondition. In discussing the evolving debt restructuring situation, the PCG welcomed the authorities' declared intention to engage in constructive discussions with Grenada's creditors and encouraged all parties to adhere to the guidelines underlying the *Principles*.

In assessing the overall recent experience with sovereign debt restructurings in the Caribbean, the PCG drew some welcome conclusions, summarized in Box 5. The key lesson was that data and policy transparency, the early formation of representative private creditor committees, and good-faith negotiations facilitated the early conclusion of the debt restructurings, with high creditor participation rates. Overall, these restructurings were broadly consistent with the *Principles*.

3. Iceland

The PCG continued to monitor the evolving discussions among private creditor committees and the WuBs of two of the major Icelandic restructured banks toward completing composition agreements. Five years after the 2008 financial crisis in Iceland and the related restructuring of major domestic banks that had been heavily exposed to nonresident deposits and other liabilities, agreements on the settlement of the claims by domestic and foreign creditors are yet to be concluded for these two key Icelandic banks (Box 6). Discussions are ongoing, but further progress is conditional on overcoming the constraints imposed by Iceland's prevailing capital controls regime and the need to secure an exemption from this regime from the Central Bank of Iceland (CBI) as well as a consent from the Ministry of Finance.

d. International Capital Markets and Emerging Markets Roundtable

The 2013 Annual Roundtable was held on April 21, 2013, organized under the leadership of the four Co-Chairs of the *Group of Trustees*. It was attended

by almost 300—a record level—senior public officials from both mature and emerging market economies, leaders from the private financial sector,

and representatives from international financial institutions. The Roundtable included two panel discussions on ongoing key policy issues of special

Box 3. Jamaica—Successful Restructuring of Domestic Public Debt

On February 12, 2013, Jamaican authorities announced they were launching a public debt exchange, the second debt restructuring for the country in three years. In February 2010, the country launched the Jamaica Debt Exchange (JDX), a modest public-debt restructuring that entailed coupon reductions and maturity extensions on outstanding domestic debt, as part of an earlier IMF-supported program, but then the program went off track. The latest operation involved mostly domestically issued local currency bonds and some domestically issued U.S. dollar-denominated bonds. The combined eligible debt amounted to about \$9 billion, or 47% of the total public debt of \$19.2 billion, and affected only resident creditors. Jamaica's external debt of \$10.2 billion, comprising \$3.7 billion in government bonds (19.5% of total debt and issued under New York law without collective action clauses—CACs) and bilateral and multilateral official loans for the rest, was not included in the debt exchange, partly with a view to maintaining access to international capital markets. The debt exchange was launched on February 12 and closed on February 21, 2013. On February 28, the Jamaican government announced that the participation rate was close to 99% and that it would continue to accept late tenders. The second stage of the bond exchange was completed on March 22, 2013, and, six days later, the government announced that it had processed an additional J\$20 billion and US\$51 million dollars—worth of bond exchanges, in total achieving cumulative debt service cash flow savings of 8.5% of GDP by 2020.

The debt exchange terms entailed the replacement of existing variable and fixed interest rate debt and debt indexed to inflation with new equivalent obligations with longer maturities (five years longer) and lower coupons (about 2 percentage points lower), with no upfront nominal haircut. Abstracting from the impact of the imbedded call options in the old and new bonds, the creditor losses in net present value terms implied by the debt exchange was estimated at around 10–13% at a discount rate of 11%. The terms and coverage of the debt exchange had been designed in such a way as to accommodate the financial and accounting frameworks of domestic financial institutions and institutional investors and minimize the impact of the debt exchange on domestic financial stability. The debt exchange was expected to entail a reduction in Jamaica's annual interest payments on public debt equivalent to 1.25% of GDP.

The debt restructuring was an integral part of the negotiations between Jamaica and the IMF on a new four-year extended arrangement under the Extended Fund Facility (EFF). These negotiations started in mid-2012 and were prompted by Jamaica's mounting external financing needs, the rising public debt burden, and the continued slow output growth and worsening external competitiveness. According to public statements, the Jamaican authorities strived during these negotiations to scale down requests by the IMF for deep upfront nominal haircuts and a sharp reduction in the debt/GDP ratio intended to accelerate the pace of restoring debt sustainability. The authorities and the IMF were fully aware of the potential adverse impact of a deep debt restructuring on the financial position of domestic creditors as these creditors hold the bulk of public debt and are critical for the continued financing of the government's needs and the expansion of domestic economic activity. In a sense, there was a trade-off between a more ambitious debt restructuring and a heavier adverse impact on the balance sheets and recapitalization needs of domestic banks and other financial institutions. In addition, it was recognized that the Jamaican constitution provides seniority of debt service payments over other government spending. After initial discussions with the IMF, the Jamaican authorities held special ad hoc consultations with selected major domestic creditors before announcing the terms of the debt exchange offer.

On May 1, 2013, following the completion of the debt exchange, the IMF Executive Board approved the new EFF arrangement in the amount of US\$932.3 million, or 225% of Jamaica's quota at the IMF. The arrangement is an important part of the US\$2 billion funding package from Jamaica's multilateral partners, including the World Bank and the Inter-American Development Bank. The combined effect of the debt exchange and the financial arrangements from the multilaterals is projected to decrease the debt to GDP ratio from the current 147% to 102% by 2020.

In assessing the outcome of the debt exchange, analysts have pointed to the modest gains achieved by the second debt restructuring (much like the 2010 experience) in lowering the debt burden and the apparent seniority accorded to external creditors. Fitch Ratings lowered the rating of Jamaica's domestic debt from B– to C (default) when the debt exchange was launched, but raised it to CCC by early March, after the exchange was concluded.

Box 4. Grenada—Initiation of Discussions with Creditors on a New Debt Restructuring

On March 8, 2013, Grenada's newly elected Prime Minister, Keith Mitchell, announced that the country did not have the financial capacity to honor the forthcoming coupon payment on the 2025 U.S. and East Caribbean (EC) dollar bonds due on March 15 and that it would seek a comprehensive debt restructuring of its public debt for the second time in eight years. In the 2013 Budget Statement, issued in April, Prime Minister Mitchell stated that Grenada could no longer service its debts on current terms. In addition, the sheer scale of Grenada's debt overhang against the backdrop of a shrinking economy had become a binding constraint on growth. Recognizing these constraints, the government intended to embark on a "comprehensive and collaborative restructuring" of the public debt. The government also announced that the "terms of this restructuring will be revealed following discussions with Grenada's creditors."

Since 2009, Grenada's economy has contracted, on average, by 2.0% annually, affected severely by hurricanes and the impact on tourism from the global financial crisis. In 2012 alone, the formerly buoyant tourism sector shrank by 5.1%. As of December 31, 2012, Grenada's public debt amounted to about EC\$2.33 billion (US\$862 million), or 108% of GDP. Multilateral creditors accounted for 24% of the total, official bilateral creditors for 10% (with 2.3% by Paris Club creditors), while external private creditors (bondholders) accounted for 22%. Domestic creditors and Petrocaribe accounted for the remaining 44%. The combined share of the U.S. dollar and the EC dollar-denominated bonds amounts to about 30% of total debt. The coupon on the \$193.5 million 2025 bond, which had previously been restructured in 2005, was scheduled to increase from 4.5% to 6.0% in September 2013, with further increases in subsequent years, eventually reaching 9.0% in 2018. By implication, the servicing costs of total public debt would rise markedly, amounting to 41.4% of the planned state expenditure in 2013. Shortly after the March 8 announcement, Standard & Poor's lowered its foreign and local currency sovereign credit ratings for Grenada from CCC+/C to selective default.

Following the announcement of the government debt restructuring plans, the private holders of Grenada's bonds organized themselves into a creditor committee representing 75% of all bonds and have initiated discussions with the authorities. Both sides have also appointed legal and financial advisors. The discussions are at an early stage, and may be influenced or affected by two parallel developments. First, the Export-Import Bank of Taiwan, Province of China, filed a lawsuit on March 4 in the District Court of the Southern District of New York against Grenada over an unpaid past court judgment for \$21.6 million plus pre-judgment interest, attorney's fees, and statutory interest, which, with post-judgment interest, now stands in excess of \$32 million (Action 1). The initial court case related to hold-out claims from the 2005–2006 debt restructuring. The new court case is still pending, and it may have an impact on the overall debt level that is eligible for restructuring. Second, Grenada has requested financial assistance from the IMF, and negotiations on a new three-year program were initiated in June 2013. As in the case of Jamaica, completion of the negotiations between Grenada and the IMF on the new program may require, as a prior action, the completion of the debt restructuring on terms that are consistent with the program's growth and fiscal targets and the medium-term debt sustainability objectives.

relevance to the sovereign debt crisis prevention aspects of the *Principles* and a keynote address by Andrea Enria, Chairman of the Board of Supervisors, European Banking Authority, on the current regulatory policy challenges facing Europe. The first panel discussion focused on the challenges posed by the current policy mix in advanced countries and its implications for boosting global growth and debt sustainability. The second panel addressed the policy

implications for emerging market economies of the current policy mix in advanced countries and the outlook for net private capital flows. As in earlier years, the discussion among Roundtable participants was lively and insightful and highly appreciated by all participants, confirming the perception of the Roundtable as a major forum for informal annual discussions among public and private decision makers.

Box 5. Lessons Learned from the Sovereign Debt Restructuring in the Caribbean

The latest hurricane sweeping through the Caribbean region is a sovereign debt crisis rather than another tropical storm. This region comprises 12 small islands—the Bahamas, Barbados, Jamaica, Trinidad and Tobago, and the 8 countries that are members of the Eastern Caribbean Currency Union (ECCU) (Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines)—as well as 3 small countries on the Caribbean coast of Central and South America (Belize, Guyana, and Suriname). The Caribbean economies present important differences in their economic and financial development, per capita income, domestic bond and banking markets, funding sources, and financial openness that influence the debt restructuring options of individual countries, including the share of public debt that potentially could be restructured, access to market financing, and the scale and nature of actual involvement of multilateral creditors. Over the past year, St. Kitts and Nevis, Belize, and Jamaica concluded sovereign debt restructuring agreements with their private creditors. Additionally, in March 2013, Grenada announced that it would be seeking a comprehensive debt restructuring, while, under the radar, Antigua and Barbuda has also, over the past three years, restructured its outstanding public debt and arrears under an IMF-supported program. Cumulatively, there have been nine sovereign debt restructurings in the Caribbean over the last 10 years.

The recent experience with sovereign debt restructurings in the Caribbean points to a number of interesting common themes or lessons, as highlighted in the discussion of these cases by the PCG:

- These debt restructurings have been broadly consistent with the *Principles*;
- The common denominator in the Belize (2013) and Grenada (ongoing) debt restructurings is the early formation of highly representative (ranging from 60 to 75% of outstanding bond amount) foreign bondholder committees. Creditor representation in St. Kitts and Nevis (2012) was smaller (around 25%) but, despite a wide distribution of bondholders, this committee was an effective vehicle for negotiation;
- Differences among debt restructurings include the scope of the public debt covered. While St. Kitts and Nevis restructured all its public debt, using a range of debt restructuring techniques, Belize restructured only its external debt and Jamaica only its domestic debt. Grenada is seeking a comprehensive debt restructuring under an IMF-supported program, and is likely to be a case similar to St. Kitts and Nevis;
- The involvement of the IMF and official creditors also varied. St. Kitts and Nevis secured a contribution from its official bilateral creditors and negotiated a new IMF-supported program. Jamaica also had a new IMF program, but did not involve official creditors in its debt restructuring. Instead, the IADB and the World Bank provided new financing. Belize chose not to have any IMF involvement and restructured only its privately held foreign debt;
- Data and policy transparency and good-faith negotiations with representative private creditor committees made it possible to conclude the debt restructuring negotiations fairly quickly;
- The involvement of the IMF in the case of St. Kitts and Nevis and Jamaica was welcomed by private creditors, as the IMF was seen to be an honest broker, clarifying the parameters of the adjustment program and promoting effective policy implementation through its conditionality; and
- The activation of CACs in the case of Belize and St. Kitts and Nevis facilitated the achievement of virtually 100% private creditor participation (holders of the debt eligible for restructuring).

Box 6. Iceland—Unfinished Restructuring Agenda and the Capital Controls Regime

Five years after the 2008 financial crisis in Iceland, the settlement of the claims by creditors is yet to be concluded for the estates of key Icelandic failed banks. Discussions are ongoing, but further progress is conditional on Iceland's capital controls regime and the need to secure exemptions from this regime from the Central Bank of Iceland (CBI) as well as approval from the Ministry of Finance. According to the law, such exemptions need to be consistent with exchange rate and financial stability in Iceland.

The winding-up boards (WuBs) of two failed banks, Kaupthing and Glitnir, and the creditors committee have reached a provisional agreement on the key issues of the composition agreements needed for the restructuring of the estates, effectively avoiding liquidation by bankruptcy procedure. These agreements relate primarily to the legal claims by creditors on bank assets that are denominated in foreign currency and held abroad, and in part to claims on domestic bank assets denominated in the local currency (Icelandic krona—ISK). These ISK-denominated assets are fairly large in size relative to Iceland's GDP, available foreign exchange reserves, and annual foreign exchange balance of payment inflows. In view of this, the authorities have expressed concern that the transformation of these assets into foreign currency, if not realistically valued and adequately paced out, might have an impact on domestic financial stability and the exchange rate of the krona. On March 9, 2013, the Icelandic Parliament amended the Foreign Exchange Act and removed the date (December 31, 2013) for the expiration of capital controls. As required by the law, the WuBs petitioned the CBI in October 2012 for the needed exemptions from the capital controls that would facilitate completion of the composition agreements. The recently amended Foreign Exchange Act also requires that, in addition to CBI permission, the Minister of Finance has to approve the exemptions from the capital controls before the composition agreements can be concluded and the ISK-denominated assets can be distributed to nonresident creditors.

Following the April 2013 parliamentary elections, the Progressive Party and the Independence Party formed a new coalition government, with Sigmundur David Gunnlaugsson, Chairman of the Progressive Party, as Prime Minister and Bjarni Benediktsson, Chairman of the Independence Party, as Minister of Finance. On May 22, the newly formed government issued a policy statement, emphasizing the successful lifting of the existing capital controls and a resolution of the outstanding large amount of household debt as key policy priorities. The WuBs and private creditors are hopeful that a solution will soon be negotiated on a voluntary basis, in a manner consistent with the *Principles for Stable Capital Flows and Fair Debt Restructuring*. Such resolution, subject to a creditor vote which would bind all creditors, would help provide legal certainty and bring benefits to all parties.

On February 28, 2013, the European Free Trade Association's (EFTA) court dismissed an alleged breach of the European Commission (EC) Directive on Deposit Insurance Guarantees (DIG) lodged by the EFTA Surveillance Authority (ESA) against Iceland's government. This breach was alleged to have resulted from a failure of Iceland's Depositors' and Investors' Guarantee Fund (IDIGF) to provide minimal compensation to the nonresident depositors for their claims against a deposit scheme (the Icesave online scheme) operated by a former major Icelandic bank (Landsbanki). Parts of the ESA claim were supported by the European Commission and written observations submitted by the governments of the Netherlands and the United Kingdom, whose nationals were the main depositors in Icesave. The court explained that the Icelandic DIG Fund had been established by the Icelandic authorities in accordance with the 1999 EU Directive prior to the revised 2009 EU Directive on DIG. The Directive had not envisaged state guarantees on compensation of depositors under conditions of systemic crisis of the magnitude experienced by Iceland, in the opinion of the EFTA Court.

The EFTA ruling initially prompted an upgrade in Iceland's sovereign credit rating by Fitch Ratings (from BBB– to BBB) for Iceland's long-term obligations in foreign currency and a revision in the country's credit rating to stable by Moody's.

IV. EVOLVING DISCUSSION ON THE FRAMEWORK FOR SOVEREIGN DEBT RESTRUCTURING

The experience with sovereign debt crisis management in the Euro Area, the debt restructuring by Greece and Caribbean countries (St. Kitts and Nevis, Belize, and Jamaica, while discussions on a new debt restructuring by Grenada are ongoing), and the ongoing litigation against Argentina in U.S. courts have prompted an intensified discussion in a number of private and official forums on an assessment of the recent experience and the lessons for the future. This discussion has focused *inter alia* on the effectiveness of the current contractual, market-based framework for sovereign debt restructuring (based on the guidelines underlying the *Principles*) both in crisis prevention and, when necessary, in delivering timely and adequate debt relief; the role of good-faith negotiations and private creditor committees; and the possible further refinements in collective action clauses, including aggregation clauses, and other aspects of bond contracts.

First and foremost among these forums was the *Joint Public-Private Sector Committee on the Strengthening of the Framework for Sovereign Debt Crisis Prevention and Resolution (Joint Committee)* formed in March 2012—with a public-private mix of members and leadership—under the aegis of the Co-Chairs of the *Group of Trustees of the Principles* and the *IIF Special Committee on Financial Crisis Prevention and Resolution*. As discussed in detail in the PCG’s 2012 *Report on Implementation*, the objectives of the *Joint Committee* were to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere; to draw appropriate lessons; and to make recommendations for strengthening the existing framework for sovereign debt crisis prevention and resolution, as embodied in the guidelines of the *Principles*.

The *Joint Committee*’s overall assessment was that the guidelines underlying the *Principles* remain an appropriate, relevant, and effective framework for sovereign debt crisis prevention and resolution. Their fundamental emphasis on

voluntary, cooperative, market-based procedures for debtor-creditor dialogue and good-faith debt restructuring negotiations remains an essential cornerstone of sovereign debt crisis management and should continue to guide the interaction between sovereign issuers and their creditors. However, while the voluntary overall framework of the Greek Private Sector Involvement (PSI) negotiations was consistent with the *Principles*, aspects of the process through which the actual debt exchange deal was reached, and certain specific features of the coverage and terms of the deal, raised some concerns going forward. The special or unique institutional features of the Euro Area and the recent experience in sovereign debt crisis management prompted the *Joint Committee* to offer some elaboration or updating of the guidance provided by the *Principles* to make it more practically relevant to the circumstances faced by mature economies, in particular those that are members of currency unions. The *Joint Committee*’s recommendations were included in an *Addendum to the Principles* (Annex II), which was endorsed by the *Group of Trustees* at its annual meeting on October 14, 2012, in Tokyo.

Private creditors and investors also found the voluntary guidelines of the *Principles* to be a useful framework for handling their debt restructuring negotiations, particularly in the cases of Greece and Belize. In the case of Belize, the representative private creditor committee used the *Principles* as a guiding framework for their negotiations with the authorities. Similarly, private creditors and investors that are members of the *IIF Special Committee on Financial Crisis Prevention and Resolution* underscored the importance of respect of property rights and of good-faith negotiations in reaching appropriate voluntary debt restructuring agreements.

International financial institutions, for their part, also undertook their own assessments or organized meetings of experts to assess recent experiences and consider alternative approaches to debt restructuring. Most prominently, the IMF issued two related reports in April and June 2013. The first

report was on the IMF staff's assessment of recent sovereign debt restructurings and their implications for the IMF's current policy and legal framework for such restructurings.¹ The second report was the IMF staff's post-evaluation of the exceptional financial assistance provided by the IMF, along with the Euro Area authorities, to Greece during 2010–2013 under that country's first three-year adjustment program.² Both papers take the view that an upfront restructuring of Greece's public debt would have been desirable at the beginning of the program, but it was not deemed feasible at the time due to *inter alia* concerns about potential contagion risks in the Euro Area sovereign debt crisis.

In broader terms, the first IMF report takes the view that recent debt restructurings have tended to be “*too little and too late*,” thus failing to reestablish debt sustainability and market access in a durable way. It also questions whether representative private creditor committees can be formed on a timely basis, given the increasingly diverse nature of the investor base in the sovereign bond market, and is doubtful about the role such committees could play. Overcoming these problems would require, according to the IMF report, action on several fronts, including (a) increased rigor and transparency of debt sustainability and market access assessments; (b) the exploration of ways to prevent the use of Fund resources to simply bail out private creditors; and (c) measures to alleviate the costs associated with restructurings. In addition, the IMF report maintains that the current contractual, market-based approach to debt restructuring is becoming less potent in overcoming collective action problems, especially in pre-default cases.

More specifically, the report suggests that consideration could be given to making non-negotiated offers by the debtor (which are already allowed under existing IMF policy)—following informal discussions with creditors—rather than negotiated deals as the norm. The justification offered is that in pre-default cases speed is of the

essence in avoiding a default. In addition, to limit the risk that Fund resources might be used to bail out private creditors, a presumption could be established that some form of a creditor bail-in measure would be implemented as a condition for Fund lending, such as upfront debt restructuring when debt is deemed unsustainable or some form of holding operation (e.g., debt rescheduling through maturity extension, coupon reduction, etc.) in cases in which, although no clear-cut determination has been made that the debt is unsustainable, the debtor has lost market access and prospects for regaining market access are uncertain. Moreover, under the IMF's “lending into arrears” policy, consideration could be given to dropping the requirement for the sovereign debtor to negotiate in good faith with representative creditor committees, in light of the perceived increased complexity of the creditor base. Furthermore, the IMF report suggests making the contractual framework more effective by replacing the standard two-tier voting threshold in the existing aggregation clauses with a one-tier voting threshold, so that blocking minorities in single bond series cannot derail an otherwise successful restructuring. Finally, in commenting on the *Principles*, the IMF report notes that while they are broadly consistent with existing Fund policy expectations, there are perceived differences on such issues as the role of creditor committees and comparability of treatment among creditors between the *Principles* and the *Addendum* and the IMF's own policy framework on sovereign debt restructuring.

A number of other discussions on proposals for alternative approaches to sovereign debt restructuring are ongoing, organized by UN agencies, academics, and private sector activists in the field. These include (a) ongoing expert group discussions coorganized by the Financing for Development Office of the United Nations Department of Economic and Social Affairs (FfDO/UNDESA) in collaboration with other institutions; and (b) the launching of the *Principles on Promoting Responsible Sovereign Lending and*

¹ *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework*, IMF Staff Report, April 2013 (<http://www.imf.org/external/np/pp/eng/2013/042613.pdf>).

² *Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement*, IMF Country Report No. 13/156, June 2013 (<http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf>).

Borrowing by the United Nations Conference on Trade and Development (UNCTAD) and ongoing efforts through a working group of experts to develop guidelines based on these principles.

The FfDO/UNDESA has coorganized—in collaboration with Canada’s Centre for International Governance Innovation (CIGI) and other agencies—four Expert Group meetings over the past two years to discuss ways to improve the current arrangements for sovereign debt restructuring. The Expert Groups have been comprised mainly of current and former supporters of statutory approaches from international institutions (mainly the IMF and the IADB), academia, the private sector, and selected representatives of the private investor community. The aim of these meetings has been to identify issues in external debt that need policy action to make crisis prevention and management policies more effective and ensure debt sustainability, and to identify incremental steps to improve the functioning of the international financial system. The primary themes that have emerged from these meetings mainly reflect skepticism about the effectiveness of the status quo for sovereign debt restructuring (based on a voluntary, contractual, market-based approach) and a strong preference for statutory mechanisms to facilitate timely restructuring and provide greater clarity on the rules by which sovereign debt restructuring will occur. Specific proposals have also been put forward to enhance the effectiveness of the debt restructuring process and, as a result, to improve the efficiency of global capital markets by reducing losses faced by creditors, sovereign borrowers, and others adversely affected by the uncertainty surrounding potentially disruptive debt scenarios. These proposals include options for standstills, the promotion of debtor-in-possession financing by private creditors, and the establishment of a Sovereign Debt Forum to provide *inter alia* a template for debt negotiations.

In 2009 UNCTAD launched an initiative to promote responsible sovereign lending and

borrowing practices, with the support of an Expert Group composed of private sector experts in this field, private investors, and NGOs, as well as representatives of multilateral financial institutions (including the IMF, the World Bank, and the Paris Club) as observers. After several meetings of the Expert Group, UNCTAD published its *Principles on Promoting Responsible Sovereign Lending and Borrowing* in January 2012. These Principles aim to promote more responsible behavior and provide economic benefits to both lenders and sovereign borrowers. They are holistic and voluntary in nature; they generally support creditor rights; and they encourage good-faith negotiations as part of their broad guidelines for the modalities of sovereign debt restructuring. Progress is being made by the working group of experts on developing guidelines for the implementation of the UNCTAD Principles.

At the same time, the International Capital Markets Association (ICMA) has been addressing options to further refine the current contractual, voluntary, and market-based approach to sovereign debt restructuring, mainly through more robust collective action clauses, in particular aggregation clauses, and clarification of the *pari passu* clause. More specifically, ICMA has been exploring ways to strengthen the provisions of the CACs included since January 2013 under a new regional policy undertaking in all the new sovereign bonds issued by Euro Area member countries and thus strike an appropriate balance between supporting creditor property rights and facilitating, when appropriate, debt restructurings with high participation. The ICMA proposals, which are still under discussion, entail thresholds of 75% for CACs and two-tier aggregation clauses with thresholds of 75% as well, higher than the current 66 2/3% in new Euro Area bonds.

In reviewing these developments, the PCG has underscored that the contractual approach, as embodied in the *Principles*, has in fact worked well in practice, as demonstrated by the findings of a recent Moody’s report³ and IMF Working Paper by

³ Moody’s Investor Service, *The Role of Holdout Creditors and CACS in Sovereign Debt Restructurings*, April 10, 2013 (http://www.moody.com/research/Moodys-Holdout-creditors-have-not-been-an-obstacle-to-sovereign—PR_270542).

Das, Papaioannou, and Trebesch (2012).⁴ Based on a survey of 34 sovereign bond exchanges since 1997, the Moody's report concludes that the restructurings have generally been resolved quickly (on average seven months after the start of negotiations with creditors, with 50% of the agreements concluded within four months); creditor coordination concerns have proved exaggerated, as representative creditor committees have in most cases been formed within a reasonably short time and the negotiations concluded relatively quickly; participation rates have been fairly high, averaging 95%, aided by the use of CACs or exit consents in 35% of the cases; hold-out creditors exceeded 10% of debt only in two cases (Argentina and Dominica), and resulted in extensive and persistent litigation only in the exceptional case of Argentina.

The PCG has also stressed that the importance of an open dialogue, data and policy transparency, and good-faith negotiations with representative private creditor committees for reaching orderly and fair debt restructuring agreements and avoiding

contagion should not be underestimated. Such agreements are more likely to be achieved when they are based on a fair burden sharing among all stakeholders in the context of a credible and sufficiently ambitious economic reform program with adequate support from the official sector.

Finally, the PCG noted that reliance on nonnegotiated debt restructuring deals with no effective involvement of representative private creditor committees would pose major risks and would be counterproductive. They would undermine collaboration with the broad private sector investor community, weaken market confidence, raise the risk premiums on sovereign debt securities, and delay the regaining of market access by the sovereign debtor concerned. Access to capital markets is a prerequisite for restoring debt sustainability and facilitating the gradual unwinding of official financial support for a crisis country. Overall, the PCG has emphasized that the current contractual, marked-based approach as embodied in the *Principles* remains a superior framework to sovereign debt restructuring.⁵

⁴ Das, Udaibir S., Michael G. Papaioannou, and Christoph Trebesch. 2012. *Sovereign Debt Restructurings 1950–2010: Literature Survey, Data, and Stylized Facts*, IMF Working Paper No. 12/203. Washington, DC: International Monetary Fund (<http://www.imf.org/external/pubs/ft/wp/2012/wp12203.pdf>).

⁵ Commenting on the IMF staff views during a discussion of the draft 2013 *Report on Implementation* in a conference call with the leadership of the *Group of Trustees*, Jacques de Larosière, *Group of Trustee* member, former Managing Director of the International Monetary Fund and former Governor of the Banque de France, made three observations: First, the rapidity with which recent sovereign debt restructurings have been completed through good-faith negotiations with representative private creditor committees makes the option of nonnegotiated, unilateral offers by the debtor after limited consultations with creditors as suggested by IMF staff unwarranted and unnecessary. Second, it would be appropriate for the IMF to entertain a presumption that some form of private creditor bail-in would be needed at the beginning of new IMF-supported programs, if deemed necessary, but the modalities and scale of any holding operations by private creditors must be negotiated with representative private creditor committees, and not be imposed unilaterally. Finally, it would be normal and appropriate that, when private creditors are asked to make financial contributions, they are given the opportunity to be informed of, and to give comments on, the basic thrust of the debtor's economic reform program.

V. INVESTOR RELATIONS AND DATA TRANSPARENCY

Since the agreement on the *Principles for Stable Capital Flows and Fair Debt Restructuring* in 2004, a growing number of sovereign borrowers have recognized the importance of active investor relations programs and strong data dissemination practices as tools to strengthen their relationship with the investor community. The *Principles* are built on the best practices of both issuers and investors and are complemented by the support of these practices by other agencies and international financial institutions, such as the IMF and the World Bank.

Regular, proactive investor relations programs have enabled government debt managers and central bank officials to understand and communicate better with their investor base, address concerns and questions, and shape market-informed policies. Such programs have proven helpful instruments for authorities to navigate turbulent periods of market sentiment. As such, they are a key element of the *Principles*.

The emphasis placed by the *Principles* on transparency and strong investor relations proved particularly useful during, and after, the global financial crisis of 2007–2009; experience has demonstrated that countries with strong policy performance and active IRPs have done well relative to others during this period of market instability. As the U.S. Federal Reserve and, eventually, other major central banks prepare to exit from the current highly accommodative stance of their monetary policies, reliance on enhanced IR and data transparency practices by emerging market policymakers, as advocated by the *Principles*, could be a complementary policy tool in addressing the challenges of maintaining stable capital flows and high investor interest in emerging market securities.

Emerging market sovereign debtors have made enormous strides over the past several years in improving their IR practices and data transparency. The IIF monitors and assesses the IR and data dissemination practices of most emerging market countries from different geographical regions, including Africa. The number of countries covered

has risen over time from 30 major issuers at the inception of IIF assessments to 38 countries since 2011. The number of countries with formal IR programs in place has increased from 5 in 2004 to 15 by 2012 out of the 38, comprising (listed according to the timing of the commencement of their programs) Mexico, Brazil, the Philippines, Republic of Korea, Turkey, Indonesia, Peru, Morocco, Colombia, Chile, Poland, the Dominican Republic, Panama, Uruguay, and South Africa (Table 1). Since early 2013, however, the Ministry of Strategy and Finance of Korea appears to have discontinued its IR website, even though it continues to be highly transparent in the provision of economic data on recent developments and prospects.

Starting in 2005, the IIF has conducted an annual survey and analysis of sovereign investor relations practices and data dissemination practices. Through consultation with the private sector over the years, the IIF has developed a set of 20 criteria for the evaluation of IR practices and 23 criteria for the evaluation of the data dissemination practices of emerging market sovereign debt issuers. Each country is assigned a score based on the number of criteria it met and the weighting of those criteria. A detailed description of the evaluation criteria is provided in Appendices A and B, while the best practices for investor relations are summarized in Annex V. It is worth mentioning that the evaluation criteria for IR and data dissemination practices and the related rankings have benefited this year from the feedback of selected members of the *IIF Council for Asset and Investment Management (CAIM)* in an effort to reflect the most current market views on this important area of crisis prevention. According to the comments, the evaluation criteria are viewed as very comprehensive, and the related rankings of IR and data dissemination practices should be key ingredients in the decision-making process of asset managers and investors. The comments also suggested that even higher weights may be desirable for data and policy transparency and the dissemination of additional information on the

TABLE 1. ACTIVE INVESTOR RELATIONS PROGRAMS

Country	Date of Launch of IRP	Location
Mexico	1995	Ministry of Finance and Public Credit
Brazil	April 1999 2001	Banco Central do Brasil The National Treasury
The Philippines	July 2001	Bangko Sentral ng Pilipinas
Turkey	August 2005	Prime Ministry Undersecretariat of Treasury
Indonesia	February 2006	Bank Indonesia
Peru	April 2006	Ministry of Economy and Finance
Morocco	December 2007	Ministry of Economy and Finance
Colombia	2008/Upgraded 2010	Directorate of Public Credit, Ministry of Finance
Chile	Upgraded 2009	Ministry of Finance
Poland	February 2009	Investor Relations Division, Public Debt Department, Ministry of Finance
The Dominican Republic	September 2009	The Public Debt Office, Ministry of Finance
Panama	April 2011	Ministry of Economy and Finance
Uruguay	April 2011	Ministry of Economy and Finance
South Africa	June 2011	National Treasury

breakdown of public debt (by maturity, currency, and type of holder) and official reserves.

The IIF’s IR and data dissemination 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 makes available information to both borrowing countries and the investor community. In addition to its role in serving as secretariat for the PCG, the IIF serves its members by providing sovereigns with IR best-practice recommendations, including best practices on the format and frequency in which data should be disseminated to the market.

a. 2013 IIF Survey of Investor Relations and Data Dissemination Practices

Since the 2012 assessment of IR practices, two factors have strongly influenced sovereign debt markets and the environment under which IR programs operate: the continued loose global

liquidity conditions and further monetary policy easing by the central banks of major advanced economies; and the U.S. Federal Reserve’s announcement in May 2013 of a pending gradual tapering of its quantitative easing as the U.S. economy and labor market gain further strength in the months ahead. The strong correction in financial markets and related volatility observed in May/June and again in mid-August of this year exemplifies the instrumental role that IR programs, through their emphasis on communication with creditors, could play in facilitating emerging market authorities’ efforts to guide investors’ expectations and perceptions.

As in earlier years, the 2013 IIF assessment covers the IR and data dissemination practices of 38 emerging market countries that are most active in international debt capital markets. The assessment evaluates, in particular, the data dissemination practices in areas that are of high importance to investors but are not fully covered by international data release standards, especially the Special Data Dissemination Standard (SDDS).

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		
	Investor relations staff identifiable and reachable through website(s)	Reciprocal links to Central Bank, Ministry of Finance, and other government agency websites	Investors able to register for website subscription	Country subscribes to SIDS	Effective data transparency of market-relevant data	Historical policy information available in market-friendly format	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) and/or conference call materials available on website(s)	Archives of investor presentations available on website(s)	Investor feedback reflected in policy decisions, per country		Senior policymakers accessible to investors	Regular self-assessment activities of investor relations
Weight Score	2	3	1	1	3	2	3	2	3	2	1	1	1	3	2	1	1	
Country	2	3	1	1	3	2	3	2	3	2	1	1	1	3	2	1	1	Country
Belize	0	3	0	0	1	0	0	2	0	0	0	0	0	0	0	0	0	Belize
Brazil*	2	3	1	1	3	2	3	2	3	2	1	1	1	3	2	1	1	Brazil*
Brazil (Gerin)	2	3	1	1	3	2	3	2	3	2	1	1	1	3	2	1	1	Brazil (Gerin)
Brazil (Treasury)	2	3	1	1	3	2	3	2	3	2	1	1	1	3	2	1	1	Brazil (Treas.)
Bulgaria	0	3	1	0	1	2	3	2	0	2	2	0	0	3	0	0	0	Bulgaria
Chile	2	3	1	1	3	2	3	2	3	2	2	3	2	3	2	1	1	Chile
China	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	China
Colombia	2	3	1	1	2	0	3	2	0	2	3	2	1	3	2	1	1	Colombia
Costa Rica	0	0	1	1	1	0	0	0	0	0	0	0	0	3	2	1	1	Costa Rica
Croatia	0	3	1	0	1	3	0	2	0	2	0	0	0	0	0	0	0	Croatia
Dominican Republic	2	3	1	1	3	2	3	2	3	2	1	1	0	3	2	1	1	Dom. Rep.
Egypt	0	3	0	0	2	0	0	2	0	0	0	0	0	0	2	0	0	Egypt
Gabon	2	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	Gabon
Ghana	8	0	0	0	0	0	0	2	0	2	0	0	0	0	0	0	0	Ghana
Hungary	32	2	3	0	1	2	3	2	3	2	2	3	0	3	2	1	0	Hungary
Indonesia	38	2	3	1	3	2	3	2	3	2	2	3	2	3	2	1	1	Indonesia
Kenya	10	0	3	1	0	2	3	2	0	2	3	2	0	0	0	0	0	Kenya
Korea	26	2	3	1	2	2	3	2	0	2	3	2	0	3	2	1	1	Korea
Lebanon	24	0	3	1	0	2	3	0	3	0	3	0	0	3	2	1	0	Lebanon
Malaysia	17	0	3	1	2	2	0	0	0	0	0	0	0	3	2	0	0	Malaysia
Mexico	34	3	3	1	3	2	3	0	3	2	3	2	1	3	2	1	1	Mexico
Morocco	19	2	3	0	1	2	0	0	3	2	1	0	0	0	0	0	0	Morocco
Nigeria	11	0	3	0	0	0	3	0	0	2	1	0	0	0	0	0	0	Nigeria
Pakistan	21	0	3	1	2	2	1	2	0	2	0	0	0	3	2	0	0	Pakistan
Panama	30	2	3	1	0	2	2	0	1	2	3	2	1	3	2	1	1	Panama
Peru	37	2	3	1	3	2	3	2	3	2	2	3	2	3	2	1	1	Peru
Philippines	34	2	3	1	2	0	3	2	3	2	2	3	2	3	2	1	1	Philippines
Poland	34	2	3	1	2	2	3	2	3	2	2	3	2	3	2	0	0	Poland
Romania	13	0	3	0	1	2	0	2	0	0	0	0	0	3	0	0	0	Romania
Russia	13	0	3	1	3	0	0	0	0	0	0	0	0	3	2	1	1	Russia
South Africa	36	2	3	1	3	2	3	2	3	2	2	3	2	3	2	1	1	South Africa
Tanzania	4	0	3	0	0	0	0	0	0	0	0	0	0	3	0	0	0	Tanzania
Thailand	21	0	3	1	1	2	0	2	0	2	0	0	0	3	2	0	0	Thailand
Tunisia	6	0	0	0	2	0	0	2	0	2	0	0	0	0	0	0	0	Tunisia
Turkey	37	2	3	1	3	2	3	2	3	2	2	3	2	3	2	1	1	Turkey
Ukraine	8	0	0	0	1	0	0	2	0	2	0	0	0	3	0	0	0	Ukraine
Uruguay	37	2	3	1	3	2	3	2	3	2	2	3	2	3	2	1	1	Uruguay
Venezuela	7	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	Venezuela
Vietnam	6	0	0	0	0	0	0	0	0	2	0	0	0	3	0	0	0	Vietnam
Zambia	4	0	0	0	0	0	0	0	0	0	0	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	Score	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.	39	1	1	2	3	1	1	3	2	1	3	1	2	Egypt	37	2	0	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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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
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.	39	1	1	2	3	1	1	3	2	1	3	1	2	Egypt	37	2	0	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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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														
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.	39	1	1	2	3	1	1	3	2	1	3	1	2	Egypt	37	2	0	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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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																												
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.	39	1	1	2	3	1	1	3	2	1	3	1	2	Egypt	37	2	0	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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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																																										
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.	39	1	1	2	3	1	1	3	2	1	3	1	2	Egypt	37	2	0	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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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																																																								
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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	Panama	25	1	1	1	3	1	1	0	2	1	3	1	0	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	35	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	42	2	1	2	3	1	1	3	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																																																																																																																																																																																																																																														
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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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
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																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
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 by original maturity	Amortization schedule disseminated 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	0	0	2	1	3	0	0	0	3	0	Panama
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	1	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	2	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

The full scoring of each country in the IIF IR and data transparency indices are shown in Tables 2 and 3. These best practices can be used by emerging market economies to design country-specific IRPs. Each index is a summation of the IR and data dissemination practices scores on a prioritized basis reflected in the weight of each criterion, with scores determined on a binary basis and no credit given for partial results.

The IR rankings in 2013 indicate welcome improvements in the scores of several emerging markets relative to 2012. The most noteworthy improvement relates to Russia, which increased its ranking from 9 out of 38 in 2012 to 13 in 2013 as a result of progress in the criteria related to making senior policymakers accessible to investors (+2), establishing reciprocal links among official websites (+1), and initiating regular self-assessments of IR activities (+1). Other notable improvements include Colombia for progress in the provision of fiscal policy information (+2), Nigeria and Uruguay for establishing web-based communications practices with investors (+2), and Peru for the archiving in official websites of investor presentations and other material released during conference calls (+1). Korea's score eased to 26 from 34 in 2012 as a result of the discontinuation of its official IR website. The 2013 rankings of IR practices indicate that Peru and Uruguay have joined Brazil, Indonesia, and Turkey in the group of countries with top rankings (37–38 out of a maximum score of 38). They were followed closely by Chile and South Africa in second place (with scores of 36 out of 38), and by a broader, third layer of countries that comprised the

Dominican Republic, Mexico, the Philippines, and Poland (with scores of 34 out of 38).

The data dissemination rankings in 2013 have remained broadly unchanged. They are headed by Turkey, which attained the highest possible score (42), followed closely by Chile (41). The second layer includes Brazil, the Dominican Republic, Indonesia, South Africa, and Uruguay with a score of 39, and Peru with a score of 38. Following closely behind was a third layer of strong performing countries comprising Croatia, Egypt, Hungary, Mexico, and Poland with a score of 37, and Morocco with a score of 36. All these countries continue to set preminent examples in data dissemination practices in their respective regions.

It is worth highlighting the efforts of the authorities of many emerging market economies to use conference calls as a cost-effective communications channel with investors. Over the past year, authorities from Indonesia, Mexico, and Panama relied on conference calls, mostly on a quarterly basis. Indonesia had quarterly calls coinciding with the calendar of Bank Indonesia's Board of Governor meetings. Similarly, Mexico's IR office conference calls were scheduled in line with the publication of the quarterly *Public Finances and Public Debt Report*, with occasional extraordinary conference calls to brief investors on the state of housing market and energy market reforms. Panama's IRO conference calls also took place on a quarterly basis. Banco Central do Brasil's conference calls did not follow a fixed periodicity. The authorities of the Dominican Republic, Peru, the Philippines, and Uruguay are planning to launch investor conference calls in the near future.

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VI. EMERGING MARKET BOND ISSUANCE AND FUNDING SOURCES

The highly accommodative global liquidity conditions in recent years and the associated low policy interest rates in advanced countries and the intensified search for high yields by institutional and other major investors have stimulated the demand for emerging market government bonds. Net portfolio inflows in emerging market countries have increased, as sovereign issuers in these countries expanded their issuance of bonds in both international markets (denominated mainly in major foreign currencies) and in local markets (denominated in local currency). In addition, several emerging market issuers have diversified or expanded their sources of market funding through new issues of sukuk bonds (bonds issued under Islamic financial principles) and samurai bonds (yen-denominated bonds issued in Japan). These trends are highlighted below.

a. EME Bond Issuance in International Markets

In the context of a favorable global environment, emerging market economies (EMEs) have remained active in international capital markets, but the trends were uneven among regional emerging market issuers. Indicative of these trends, total sovereign bond issuance by the 30 emerging market economies monitored by the IIF as part of its biannual report on net capital flows to emerging markets¹ increased by 14.4% to \$72.9 billion in 2012 relative to 2011. This was mainly the result of a very strong increase (46% to \$44 billion) by emerging European economies and an even stronger increase from a low base (62.3% to \$5.9 billion) by emerging market issuers in the Middle East and Africa. In contrast, bond issuance by emerging Asian and Latin American countries declined by 11% and 32%, respectively. Total emerging market government

bond issuance in the first five months of 2013 amounted to \$24.9 billion, roughly the same pace as in 2012.

The global low-yield environment in recent years has encouraged a robust demand for long-dated bonds. Notable among the recent issues is Mexico's 30-year bond at a record low coupon of 4.19% and Chile's 30-year tranche as part of the \$1.5 billion global issue in October 2012. Other issuances included a \$1.5 billion bond by Mexico in January 2013 through the reopening of the 2044 global bond, and the \$800 million issued by Brazil in May 2013 through a similar reopening operation (the 2023 global bond). All these issuances by the three aforementioned countries were preceded by coordinated roadshows during which senior policymakers met investors in a series of deal roadshows in key financial centers.

In emerging Europe, Hungary, with a \$3.25 billion government bond issuance in February 2013, signaled its return to international bond markets after nearly two years. Portfolio debt inflows and both international bond issues and nonresident acquisitions of forint-denominated sovereign bonds jumped after the middle of last year and have continued at a steady rate even after global market sentiment worsened in the second quarter of 2013, following the U.S. Fed's announcement of the pending tapering of quantitative easing. Indeed, net foreign purchases of forint-denominated bonds accelerated to \$1 billion from late May through mid-July 2013, bringing the 12-month total since the middle of last year to \$4 billion.

The strong appetite among international investors for high-yield government bonds encouraged the issuance of bonds by a broader range of emerging markets, as well as new issuers among developing or low-income countries.

¹ This list of countries covers 24 major bond issuers out of the 38 countries monitored by the IIF as part the annual assessment of IR and data dissemination practices—*anecdotal evidence on the bond issuance by some of the remaining 14 countries is shown below.* These 14 smaller countries include Belize, Costa Rica, Croatia, the Dominican Republic, Gabon, Ghana, Kenya, Pakistan, Panama, Tanzania, Tunisia, Uruguay, Vietnam, and Zambia.

Indonesia issued \$1 billion in fixed-rate notes in July 2013. Nigeria issued \$1 billion in bonds in the same month, placed in separate 5- and 10-year \$500 million Eurobond tranches. The Nigerian bonds were four times oversubscribed, illustrating the strong appetite investors currently have for frontier African securities.

Since the 2012 IIF investor relations survey, there have been debut issuers in international capital markets that have benefited from increased market appetite for new asset classes and risk instruments. First-time issuers included Bolivia (\$500 million in October 2012), Mongolia (\$1.5 billion in November 2012), Paraguay (\$500 million in January 2013), Honduras (\$500 million in March 2013), Tanzania (\$600 million in March 2013), and Rwanda (\$400 million in April 2013). All these new bond issues included collective action clauses. The proceeds of these bonds have been earmarked for a variety of purposes, including funding of domestic infrastructure projects and budget support.

The strong capital inflows into emerging economies and high liquidity over the past couple of years have contributed to lower yields on many emerging market bonds, prompting some sovereigns toward opportunistic taps into old or new issues in international markets. However, going forward, as quantitative easing and global interest rates—led by the United States—begin a process of “normalization,” the environment for bond and loan issuance in emerging markets will probably become more challenging, with greater differentiation in capital flows among emerging market economies. With systemic factors (particularly the hunt for yield) diminishing, the role of IR programs in emerging countries will become more instrumental. Emerging markets with solid performance records and strong IR, data transparency, and debt management practices will likely remain preferred investment destinations.

b. Sukuk and Samurai Bond Markets

Several emerging market issuers have diversified or expanded their sources of market funding in 2013 through new issues of sukuk and samurai

bonds. The international issuance of bonds based on Islamic financial principles (the global sukuk market) represents an active part of the Islamic financial system and is gaining visibility and demonstrating remarkable growth. Despite volatility in the global debt market, sukuk bonds have maintained momentum this year, with issuances of \$61.2 billion in the first half of 2013, with the Central Bank of Malaysia alone issuing almost half (\$28.2 billion) of that amount. In Africa, some states, including South Africa, Nigeria, Senegal, Mauritania, Morocco, Egypt, and Tunisia, have announced their intention to come to the market with Islamic bonds to fund infrastructure, build reserves, and diversify their investor base. Tunisia’s parliament recently passed a law that will allow the state to issue Islamic bonds, something it plans to do by year-end with a \$700 million sukuk issue. Global outstanding Islamic bonds reached \$245 billion by mid-2013, up 16.4% from a year earlier. Having grown at a compound annual growth rate of 57% over the past decade and based on the issuance momentum seen in the first six months of this year, the global sukuk issuance is projected by analysts to remain resilient, with moderate growth during the remainder of 2013.

Samurai bonds, yen-denominated notes sold by overseas borrowers in Japan, provide issuers with financing diversification through another niche market. Although the demand for samurai bonds was muted during the first quarter of 2013, the effects of economic stimulus policies announced by Japan and recent volatility in debt markets elsewhere have resurrected the niche yen-denominated market. Sales of samurai bonds surged to ¥223 billion in May 2013. In June, Slovakia concluded a 30 billion yen issue in two tranches—three-year bonds at 0.72% and five-year bonds at 0.99%—taking advantage of the low costs and investor interest.

c. Local Currency Bond Markets

In the aftermath of the 2007–2009 financial crisis, the importance of developing deep, efficient, and properly regulated local currency bond markets (LCBMs) has been widely acknowledged, including by the G20. LCBMs help diminish vulnerabilities

associated with duration and currency mismatches, ultimately improving both national and international financial stability.

While the overwhelming majority of outstanding debt assets remain denominated in the world's most traded currencies, the local currency bond markets in emerging market economies have advanced considerably over the last decade as improved macroeconomic policies and low inflation have made local currency paper in many emerging countries more appealing to global investors. In emerging Asia alone (China, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam), according to the Asian Development Bank, the size of the local currency government bond market expanded from US\$479.5 billion in 2000 to US\$4.2 trillion by March 2013. The largest of these markets were in China, which issued \$1.3 trillion in local currency debt last year; Korea; and, to a lesser extent, Thailand, Malaysia, and Singapore. Globally, emerging market local currency debt during the first quarter of 2013 stood at \$7.9 trillion—more than 80% of outstanding debt of emerging economies. The rate of growth of EMEs' local debt markets has slowed to less than 7% annually over the past 2 years, from more than 15% annually during 2005–2010. Nevertheless, there is significant potential for a further expansion of LCBMs, as emerging market countries account for approximately 36% of world GDP, while emerging market LCBMs make up only around 15% of global LCBM capitalization.

The expansion of the emerging market LCBMs coincided with a steady rise in foreign ownership of emerging market local currency bonds over the last several years. Aggregate holdings of emerging market domestic currency sovereign debt by international investors increased from 10% in 2010 to 20% in 2013. In Hungary, Peru, Poland, and Malaysia, the share of foreign holdings of local bonds is more than 30%. Moreover, the local currency bonds of a number of emerging market economies are now included in global bond indices. The widely used Citigroup World Government Bond Index (WGBI) contains domestic government bonds issued in 5 emerging markets: Malaysia

(included in 2007), Mexico (2010), Poland (2003), Singapore (2005), and South Africa (2012).

In addition to augmented foreign investment, domestic investors have become increasingly vital to the development of emerging market LCBMs. For example, emerging market pension fund assets have multiplied fourfold over the past decade, from \$422 billion in 2001 to \$1.7 trillion at the end of 2011. Latin American pension funds invest approximately 70% of their assets in bonds, while European emerging market and African pension funds allocate 50–60% (28% in local currency sovereign bonds), respectively. The allocation of Asian emerging market pension funds to bonds is lower, but is rising. Furthermore, the assets under management of sovereign wealth funds, with three-quarters domiciled in emerging economies, exceeded \$4.62 trillion in the first quarter of 2012, double the 2008 level. Consequently, robust growth of local institutional investors is boosting liquidity in emerging market LCBMs and diminishing vulnerabilities related to potential abrupt reversals in foreign investment flows.

While there have been significant developments in LCBMs, important challenges do remain, including *inter alia* improving liquidity, broadening the investor base, and encouraging greater private sector issuance. In addition, the decision in September 2013 by global regulatory bodies to exempt currency swaps from initial margin requirements on non-centrally cleared derivatives would aid the demand for emerging market local currency bonds by foreign investors. The 2008 financial crisis revealed that LCBMs continue to be reliant on liquidity from international investors and that emerging market policymakers need to pay attention to broadening the domestic investor base. At the policy level, the official sector (national authorities and international financial institutions) is seeking to deepen LCBMs and enhance the integration of regional bond markets, with the objective of diversifying risk and sources of financing, in addition to funding infrastructure projects and fostering economic development in poorer countries. National investor relations programs are one of the initiatives that

can play a vital role in furthering these goals. By distributing accurate and timely data and information regarding a state's financial and economic performance, sovereigns, through their IR programs, can help build market confidence in their respective economies and create a more

favorable investment destination for international investors. Thus, proactive measures by emerging market policymakers to adopt better IR practices tailored to investors' needs could help facilitate greater developments in emerging economies' LCBMs.

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.

Presence of institutionalized IR activities

A formal 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 IR activities without having a formal IRP. The country must have these functions built into the existing framework of the Central Bank, Ministry of Finance, or government agency responsible for debt management. There must be staff responsible for communication with investors who fulfill these duties and are recognized by investors as reliable and accessible.

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 email.

Country subscribes to SDDS

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

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 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 email at least every two weeks.

Web-based communication with investors

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

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 email and/or an announcement on a government agency website. The call should be led by the IRO head and senior department heads, with involvement of senior policymakers such as the Undersecretary of Finance or Deputy Governor of the Central Bank as needed. "Closed" calls, meaning that only a small group of investors is invited and the date and time of the call is not published on the website, do not qualify for this criteria.

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

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

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:

- (1) conference calls, (2) bilateral meetings, and
- (3) 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 24 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 SDDS with three levels of disaggregation: (1) by institutional sector, (2) by short-term and long-term maturities on an original maturity basis, and (3) by instrument. We also have reviewed the dissemination practices for the provision of more comprehensive and timely information in areas that are not prescribed by those standards, including the availability of debt amortization schedules, the relevant breakdowns by institutional sector, and the timely availability of those schedules.

In the case of external debt amortization schedules, our assessment of dissemination practices shows that Central Banks usually prepare and release this information. However, provision of central

government debt data varies considerably across countries; in some cases, analysts will search hard to locate the schedule. Also, countries rarely meet the IIF's encouraged element of providing quarterly data for at least the immediate 12-month period.

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

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



APPENDIX B. DIFFERENCES BETWEEN INVESTOR RELATIONS OFFICES AND INVESTMENT PROMOTION AGENCIES

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

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

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

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

On a day-to-day basis, IROs facilitate the communication between investors and country authorities. In addition, IROs play a broader role in increasing the stability of the financial system.

The financial crises that have occurred over the past decade have galvanized actions by the international financial community to limit the severity and frequency of such crises, as well as to bolster the financial system more broadly. IROs have proven to be important pillars for helping avoid crises and are also crucial building blocks for a more effective approach to managing them.

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

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

Press and IR

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

Several authorities have explored co-mingling press and IR functions. Press and IR should be kept separate as the job of the IRO is to establish two-way communication with investors. Press officers deliver

information in only one direction and do not need to be tuned into the market. The scope of a press office is far-reaching, while the focus of an IRO is specific to debt investors.

ANNEX I. THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING¹

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 bail-outs. 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.

The *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

¹ The *Principles* were launched in 2004 and welcomed and supported by the G20 Finance Ministers and Central Bank Governors in their meetings in Berlin, Germany, on November 20–21, 2004, and in Xianghe, Hebei, China, on October 15–16, 2005. During the annual meeting of the Group of Trustees on October 10, 2010, the Trustees agreed to broaden the applicability of the *Principles* to go beyond the traditional emerging market sovereign issuers to encompass on a voluntary basis all sovereign issuers, as well as cases of debt restructuring in which the state plays a major role in influencing the legal and other key parameters of debt restructuring, based on the recommendation of a PCG Working Group on the Applicability of the *Principles*. The Group of Trustees also agreed to drop the reference to emerging markets from the title of the *Principles*. For more details, see Annex II of the October 2010 *Report of the PCG on the 2010 Implementation of the Principles for Stable Capital Flows and Fair Debt Restructuring*.

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 email or investor relations websites; establishing formal channels of communication between policymakers and investors through bilateral meetings, investor teleconferences, and videoconferences; and maintaining a comprehensive list of contact information for relevant market participants. Investors are encouraged to participate in IRPs and provide feedback on such information and data. Debtors and investors should collaborate to refine these techniques over time.

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

Consultations. Building on IRPs, debtors should consult with creditors to explore alternative market-based approaches to address debt service problems before default occurs. The goal of such consultations is to avoid misunderstanding about policy directions, build market confidence on the strength of policy measures, and support continuous market access. Consultations will not focus on specific financial transactions, and their precise format will depend on existing circumstances. In any event, participants must not take advantage of such consultations to gain a commercial benefit for trading purposes. Applicable legal restrictions regarding material non-public information must be observed.

Creditors' support of debtor reform efforts. As efforts to consult with investors and to upgrade policies take hold, the creditor community should

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

3. Good-Faith Actions

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

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

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

Creditor committee policies and practices. If a creditor committee is formed, it should adopt rules and practices, including appropriate mechanisms to protect material non-public information; coordinate across affected instruments and with other affected creditor classes with a view to form a single committee; be a forum for the debtor to present its economic program and financing proposals; collect and analyze economic data; gather, evaluate, and disseminate creditor input on financing proposals; and generally act as a communication link between the debtor and the creditor community. Past experience also demonstrates that, when a creditor committee has been formed, debtors have borne the reasonable costs of a single creditor committee. Creditors and debtors agree jointly what constitute reasonable costs based on generally accepted practices.

Debtor and creditor actions during restructuring. Debtors should resume, to the extent feasible, partial debt service as a sign of good faith and resume full payment of principal and interest as conditions allow. Debtors and creditors recognize in that context that typically during a restructuring, trade lines are fully serviced and maintained. Debtors should avoid additional exchange controls on outflows, except for temporary periods in exceptional circumstances. Regardless of the specific restructuring mechanics and procedures used (i.e., amendment of existing

instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced. Debtors should retain legal and/or financial advisors.

4. Fair Treatment

Avoiding unfair discrimination among affected creditors. The borrowing country should avoid

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

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

ANNEX II. ADDENDUM TO THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING¹

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

1. Overall Assessment

The guidelines underlying the *Principles for Stable Capital Flows and Fair Debt Restructuring* remain an appropriate, relevant, and effective framework for sovereign debt crisis prevention and resolution. Their fundamental emphasis on sound policies and data and policy transparency by debtors is of critical importance in crisis prevention. Moreover, the underlying guidelines for voluntary, cooperative, market-based procedures for debtor-creditor dialogue and good-faith

debt restructuring negotiations remain an essential cornerstone of sovereign debt crisis management and resolution and should continue to guide the interactions between sovereign issuers and their creditors. Such a cooperative approach would facilitate an early restoration of market access, which is of critical importance in achieving debt sustainability over time, and allow the official sector to gradually reduce its exceptional financial assistance to the countries under official sector-supported reform programs.

2. Data and Policy Transparency for Crisis Prevention

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

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

Effective sovereign debt crisis prevention is a shared responsibility that requires—besides data and policy transparency and open dialogue with creditors by the sovereign debtors—sustained surveillance

¹ The *Addendum to the Principles* outlines the recommendation of the *Joint Public-Private Committee on the Strengthening of the Framework for Sovereign Debt Crisis Prevention and Resolution*, set up in March 2012 under the aegis of the four Co-Chairs of the *Group of Trustees* and the two Co-Chairs of the *IIF Special Committee on Financial Crisis Prevention and Resolution* to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere; draw appropriate lessons; and make recommendations for the strengthening of the existing framework for sovereign debt crisis prevention and resolution, as embodied in the guidelines of the *Principles*. The *Group of Trustees* endorsed the *Addendum to the Principles* at its Annual Meeting on October 14, 2012, in Tokyo, Japan. For the complete *Joint Committee* report and its recommendations, please refer to the *2012 Report on Implementation by the Principles Consultative Group*.

efforts by regional and international institutions and private sector groups; actions by regulatory agencies, accounting, and other international standard setters; as well as vigilance and enhanced risk management by private creditors and market participants in general.

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

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

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

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

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

Mature market country issuers should consider implementing the best practices for investor relations

that have evolved. The adherence of emerging-market borrowers to these best practices are reviewed annually by the IIF and summarized in the annual Implementation Report of the *Principles* issued by the *Principles Consultative Group*.

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

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

4. Good-Faith Actions in Cases of Debt Restructuring

(a) Voluntary Good-Faith Process

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

community, particularly in the complex cases of mature market issuers that are members of currency unions. Such a framework has proved to be efficient in facilitating appropriate agreements on crisis resolution, while containing the adverse impact on market confidence and other disruptions and concerns caused by spillover and contagion risks.

Sovereign issuers and their creditors should strive to reach and effectively implement voluntary agreements on a timely basis to help minimize adverse market reactions and contagion effects. In this context, debtors and creditors should be cognizant of the potential adverse effects of the interaction between sovereign debt and capital markets, to the detriment of the interests of all parties. With the increased sophistication, integration, and complexity of capital markets, for both emerging market and mature economy countries, the interaction among developments in sovereign debt markets, changes in the regulatory framework, and banking system practices gives rise to major dynamics with significant implications for credit expansion, risk practices, market access by sovereign debtors, and macroeconomic developments.

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

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

(b) Debtor and Creditor Actions During Debt Restructuring

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

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

It should be recognized that the attainment of debt sustainability over time is a dynamic, complex process that depends critically on the quality and market credibility of actual and prospective adjustment policies undertaken by the debtor, the direction of macroeconomic policies, the terms and volume of financial support or debt relief provided by official and private creditors, and the prospects for the continuation or resumption of market access at reasonable terms. As such, the debt sustainability analysis entails judgments and assessments that are often not easily amenable to quantitative rules and that require revisions

as macroeconomic parameters evolve. The contributions toward achieving debt sustainability by private creditors as well as other creditors should be considered simultaneously, with no one creditor group considered as a residual source of funding on an *ex ante* basis.

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

(c) Creditor Committee Policies and Practices

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

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

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

negotiations between the sovereign debtor and the private creditor committee.

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

(d) Tools for Debt Restructurings

Sovereign issuers and their creditors should introduce CACs and possibly other options to enhance the credit quality of the new debt instruments used under debt restructuring exercises so as to enhance the prospects for high voluntary creditor participation. Retroactive legal changes to unilaterally modify the terms and conditions of financial contracts may undermine the integrity of financial markets and the sanctity of contracts and should be avoided. However, in exceptional cases and after a voluntary debt exchange agreement has been reached, such modifications of the governing legal framework to introduce a collective action mechanism on a timely basis with terms and thresholds consistent with market practices may be necessary in facilitating a voluntary debt exchange and achieving a fair outcome for all bondholders.

5. Fair and Comparable Treatment of All Creditors

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

Fair treatment of all creditors is in the interest of both issuers and creditors. It lessens the burden on all creditors and, by avoiding discrimination, encourages creditors to participate voluntarily in debt resolution and minimizes any adverse impact on the investor demand for existing or new issues of sovereign debt by the issuer undergoing debt restructuring or similar debtors in the region or fellow members of currency

unions. Reduced demand for sovereign debt by private investors, and/or delayed resumption of market access by the sovereign debtor due to subordination concerns, increase the potential burden on official creditors and international or regional institutions to provide financial support to the adjusting country in larger volume and/or over a longer period of time than would otherwise be necessary.

ANNEX III. MEMBERS OF THE GROUP OF TRUSTEES OF THE PRINCIPLES

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

IRO/IR Staff

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

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

- Facilitate two-way communication channels with investors through emails, conference calls, and the IR website.
- Brief senior policymakers about market feedback and concerns, overall market sentiment with respect to asset class and general global environment, and anticipated

market reactions to policy changes under consideration.

- Disseminate relevant macroeconomic data and policy information (see below) to market participants and answer questions about the data, information, and other related issues.
- Coordinate access of data and information from various official institutions and develop a network of officers in various government agencies and the Central Bank who can answer investor queries.
- Coordinate access of market participants to senior policymakers.
- Coordinate internally the country's "message" and convey this message to investors.
- Present a coordinated and streamlined message and explain any changes in policies or data.
- Maintain credibility by acknowledging weaknesses in policies and the economic situation at investor briefings but should not serve as an advertising campaign for the government.

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

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

¹ The Strengthened Investor Relations Best Practices are presented in the report *Investor Relations: An Approach to Effective Communication and Enhanced Transparency – 2005 Assessment of Key Borrowing Countries*, published by the Institute of International Finance in December 2005.

begins to slip, more direct involvement of senior policymakers in the IR process may be required.

IR Website

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

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

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

Dissemination of Macroeconomic Data and Policy Information

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

- **Timely and regular dissemination data releases and policy information.** Use a release calendar to notify the market of upcoming releases well in advance. This will help dispel

market rumors that may emerge from lack of information.

- **Limited general information.** Rather, provide specific, tailored interpretations that give insights into the information. This is particularly important when the information is negative or during difficult circumstances arising from higher risk aversion by market participants or challenging domestic economic or political conditions.
- **Clear and user-friendly format.** Provide data in a Microsoft Excel format that can be manipulated, as opposed to providing PDF and Word formats. In addition, present data in a time series of at least 2 years, as opposed to just current data and previous period data. The highest level of "market-friendliness" is the ability for investors to specify parameters such as time period and currency to obtain tailor-made time series that can be downloaded into Excel. Quality data in categories most useful to the market are preferred over large quantities of data that are less useful. In terms of data provision, special efforts should be made regarding forward-looking information. The IRO should "defend" or explain forecasts provided in a timely manner. IROs should let investors know if there have been any changes in the technical definitions of data or revisions made to the data.

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

- **Data on economic performance** based on the international data standards as they pertain to the International Monetary Fund's (IMF's) encouraged special data dissemination standard (SDDS). This requires timely provision of statistics of the real sector as well as of the fiscal, external, and financial sector statistics. These data should be supplemented as necessary by methodological notes. (See section

on data release practices for further analysis.) The IRO website should contain an indexed archive of the data or links to other government sites where the data are available.

- **Data for the 15 core indicators for financial sector soundness as identified by the IMF.** The IRO website also should contain an indexed archive of this information.
- **Forward-looking information on economic policies** such as budget projections, monetary policy targets, and structural factors (e.g., legal, regulatory, governance frameworks) supported by the data as appropriate. The IRO website also should contain an indexed archive of this information.

Additional Key Data

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

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

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

IR Contact List

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

Feedback and Communication Channels

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

These channels could be established through

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

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

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

Investors value face-to-face interaction with senior policymakers through bilateral meetings.

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

Times of Diminishing Market Confidence

Issuers who support the *Principles* agree that countries accustomed to dealing proactively with market participants will have a head start in stepping up the consultation process with market participants in response to signs of eroding market confidence.

Such swings in market sentiment may be attributed to challenging economic and political prospects or contagion from developments in other emerging markets.

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

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

Regular Self-Assessment

IROs should conduct annual assessments to ensure they are providing the best possible services to policymakers and investors, including providing timely, accurate, and relevant information, reaching all targeted investor groups, receiving and effectively processing feedback, and using the most optimal technology to reach out to investors. IRO staff can

conduct self-assessments or use outside consultants such as the IIF's Sovereign Investor Relations Advisory Service (SIRAS). Investor surveys on the IRO website or to the investor contact list also would be useful. To be effective, IRO activities can be benchmarked against IIF IR best practices or other guideposts, such as corporate IRO best practices.

Press and IR

Several authorities have been explored co-mingling press and IR functions in a single IRO.

While the thrust of these functions is similar, as they both involve communicating with the external environment, the key differences between them provide convincing arguments that they should be kept separate.

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

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

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



ANNEX VI. IIF 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*. 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* maintain 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 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)¹ released standard collective action clauses for fiscal agency agreements under English law that contain provisions for the appointment of a single Creditor Committee.

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

¹ 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).

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"²) agree to form a Committee—this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

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 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.

² The "creditor community" includes banks, fund managers, hedge funds, and retail investors.

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 the possession of confidential information that is shared in the context of a restructuring negotiation.

7. Negotiations should take place directly between the debtor and creditors, without the participation of multilateral or bilateral organizations. 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 in which a substantial amount of debt is held at the retail level.

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