

# PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

## REPORT ON IMPLEMENTATION BY THE PRINCIPLES CONSULTATIVE GROUP

WITH COMPREHENSIVE UPDATE ON  
INVESTOR RELATIONS PROGRAMS  
AND DATA TRANSPARENCY

OCTOBER 2017

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TRANSPARENCY   COOPERATION   GOOD FAITH   FAIR TREATMENT

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*The cut-off date for the data used in this report was September 29, 2017*

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## I. Overview

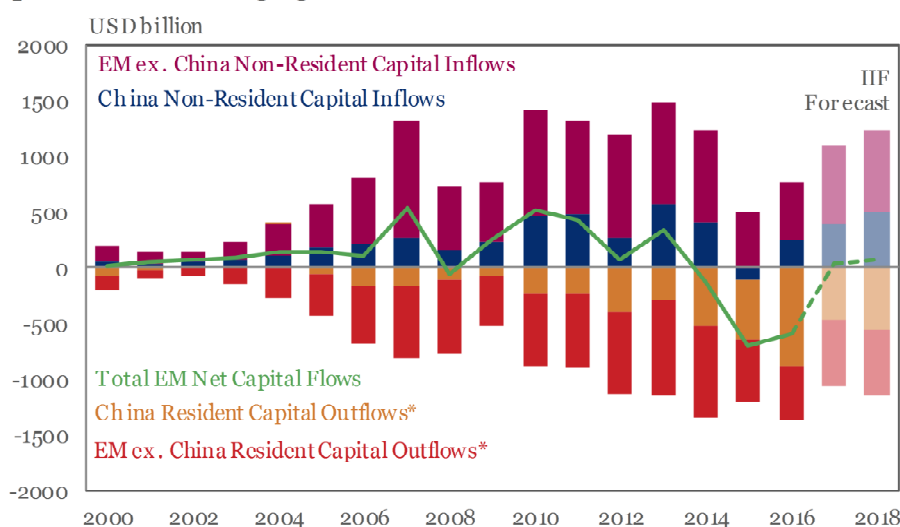
Private capital inflows to the 30 major emerging markets monitored by the IIF are estimated to rise moderately from \$763 billion in 2016 to \$1.1 trillion in 2017 (see Chart 1). Portfolio inflows have performed strongly in 2017, with nine consecutive months of positive inflows for the first time since 2014. In July, the perception that the ECB and BoE could be contemplating moderating the pace of monetary accommodation precipitated a temporary bond sell-off, reminiscent of a milder version of the 2013 taper tantrum. The net debt outflows reversed after only four days, but the episode is a reminder of how sensitive EM assets can be to abrupt shifts in monetary policy expectations from key central banks. Meanwhile, rising debt levels and significant FX debt redemptions coming up in some emerging markets reveal a potential vulnerability to foreign capital outflows.

In the midst of these potentially challenging circumstances, the *Principles for Stable Capital Flows and Fair Debt Restructuring* continue to serve as a very useful framework for crisis prevention and resolution, particularly in the cases of sovereign debt restructuring as in Belize and Mozambique. The *Principles* constitute a voluntary code of conduct between sovereign debt issuers and their private sector creditors, which 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 (on a voluntary basis) and non-sovereign entities in cases where the state plays a major role in influencing the legal parameters of the debt restructuring.

The *Principles* incorporate voluntary, market-based, flexible guidelines for the behavior of sovereign debtors and private creditors with the aim of promoting and maintaining stable capital flows, financial stability and sustainable growth. The *Principles* promote crisis prevention through the pursuit of strong

**Chart 1**

### Capital Flows to Emerging Markets



Source: IIF

\*In this chart, resident outflows include errors & omissions and net financial derivatives

policies, data and policy transparency, and open communication and dialogue with creditors and investors—particularly through investor relations programs (IRPs). The *Principles* strive for effective crisis resolution through, *inter alia*, good-faith negotiations with representative groups of creditors and non-discriminatory treatment of all creditors. The *Principles* are monitored by two oversight bodies—the *Group of Trustees* and the *Principles Consultative Group (PCG)*, which includes senior officials from developed and emerging-market countries, as well as senior bankers and investors.

Since the *Principles* were launched in 2004, their effective implementation has helped safeguard access to private external financing during periods of global financial stress (see Box 1). Countries that have employed the combination of good policies, good communication and disclosure practices—especially through active IRPs—have been able to maintain investor confidence and have performed better relative to others, both during the 2008-09 global financial crisis and since then.

In view of the evolving trends in global financial and sovereign debt markets, the PCG discussions on strengthening the framework for sovereign debt restructuring continued to be extensive over the past year. The discussions covered the role of creditor engagement in sovereign debt markets, the ongoing revision of the IMF's lending into arrears policy and efforts to strengthen coordination between public and private sector creditors. In addition, the PCG followed and provided comments on the G20 initiative to develop GDP-linked bonds, which could aid in both crisis prevention and during debt restructurings. The PCG was updated on developments in the recent sovereign debt restructuring processes in Belize and Mozambique and a financing operation in Mongolia. It also reviewed economic adjustment in the post-debt restructuring environment in Greece, and examined the possibility of a sovereign debt crisis in Venezuela. The PCG also stayed informed on the build-up in debt levels in sub-Saharan Africa and Sudan's progress towards lifting of sanctions and gaining debt relief. Finally, it kept informed on the debt situation in Puerto Rico.

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**Box 1. BENEFITS OF IMPLEMENTING THE *PRINCIPLES***

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

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

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

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

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

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

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

The **Group of Trustees** is the guardian of the *Principles*. The Group consists of 41 current and former leaders in global finance with exceptional experience and credibility. The Group has three co-chairs. The current co-chairs of the Group are **Axel Weber**, Chairman of the Board of Directors, UBS Group AG and former President of the Bundesbank; **François Villeroy de Galhau**, Governor of Banque de France; **Zhou Xiaochuan**, Governor of the People’s Bank of China (see Annex III for the list of all members of the Group of Trustees).

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

The PCG currently has 22 members, including finance ministry and central bank officials from a diverse group of emerging markets and senior representatives of the private financial community, many of whom were instrumental in the formulation of the *Principles* (see Annex IV for a list of the PCG members). The membership of the Group has increased since its first meeting in 2005 to represent more adequately the evolution of global finance in emerging markets and other debtor countries. The PCG maintains an appropriate balance between private and public sector members, as well as membership balanced in geographical scope. PCG 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.

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



## II. PCG Discussions on Regional and Country Circumstances

### a. Annual Meeting of the Group of Trustees

Members of the Group of Trustees of the *Principles* 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 2016 annual meeting was held on October 8 in Washington D.C. at the same time as the Annual Meetings of the IMF and the World Bank and the Annual Membership Meeting of the IIF. The Trustees discussed the comprehensive 2016 Report on the Implementation of the *Principles* provided to them by the PCG. The Trustees noted with satisfaction that the voluntary, market-based, flexible guidelines for debtor-creditor dialogue underlying the *Principles* continue to serve as a relevant and effective framework for both crisis prevention and resolution, while facilitating stable capital flows, support for financial stability and sustained growth. The *Principles* promote crisis prevention through the pursuit of strong policies, data and policy transparency, and open communication and dialogue between creditors and investors, and effective crisis resolution through *inter alia* good-faith negotiations for a fair debt restructuring deal with representative groups of creditors. They also underscored the importance of enhanced investor relations and data transparency practices and expressed appreciation for the IIF's annual evaluation of these practices by emerging market sovereign bond issuers.

The Trustees noted the PCG's review of the evolving discussions on the effective framework for sovereign debt restructuring. They encouraged the IIF Secretariat, the PCG and the IIF Committee on Sovereign Risk Management (CSRМ) to continue advocating for good-faith engagement with private sector creditors by sovereign debtors—consistent with an updated Annex VI of the principles on creditor engagement and creditor committees. The Trustees noted the G20 commitment to further analyze the technicalities, opportunities and challenges of state-contingent GDP bonds and encouraged public authorities and market participants to make progress on this issue. The Trustees also welcomed the continued discussions between private and public creditors aiming at strengthening coordination between the two.

### b. Overview of PCG Discussions

Over the past year, the PCG held three conference calls to review developments in evolving country cases of sovereign debt restructurings. Additionally, the PCG discussed a number of potential debt restructuring cases involving countries that are undergoing economic adjustment.

Second, the PCG followed the evolving debate on strengthening the framework for sovereign debt restructuring through preservation and promotion of the good-faith criterion and update of the creditor engagement principle (for more details see section III).

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Finally, the PCG delved deeper into a number of country cases, including the recent sovereign debt restructuring by Belize, the ongoing restructuring in Mozambique, the debt exchange in Mongolia and past country cases where sovereign debt issues remain relevant (Greece) as well as cases where debt restructuring issues could arise (Venezuela and Sudan). The PCG also stayed informed on the debt situation in Puerto Rico. As a U.S. territory, Puerto Rico is excluded from chapter 9 bankruptcy proceedings. It recently gained access to a court-overseen debt restructuring process through Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), a 2016 legislation.

### c. PCG Discussions on Country Cases

Over the past year, the PCG discussed the sovereign debt restructuring operations by **Belize**, the ongoing debt restructuring in **Mozambique** and the debt exchange in **Mongolia**. The PCG also kept abreast of the unfolding economic crisis in **Venezuela** as well as the debt crisis in **Puerto Rico**. It also followed developments in **Greece** where sovereign debt issues remain relevant and **Sudan**, one of the few remaining HIPC countries that has yet to receive debt-relief.

#### **BELIZE**

On March 21, 2017, Belize successfully restructured its \$526.5 million international bond (2038 bond), representing almost the entirety of its external commercial debt. While this was a third debt restructuring for Belize in the last decade, it demonstrates a successful conclusion of a sovereign debt restructuring through good-faith negotiations with a representative bondholder committee, consistent with recommendations of the *Principles*.

The latest restructuring has roots in 2007, when the Caribbean country consolidated its external commercial debt into a single “Superbond” (\$546 million with final maturity in 2029), which it then restructured in 2013 by issuing the 2038 bond. Last November, Belize preemptively announced that it would seek to restructure the 2038 bond due to unfavorable economic conditions, including weak growth, twin fiscal and current account deficits and high debt levels. A week later, a group of bondholders formed a creditor committee and established dialogue with the government almost immediately. By March 21, over 88% of bondholders had consented to the amendments proposed by Belize, including reduction of coupon to 4.9375% with principal amortization in five equal, annual installments from 2030 through 2034.

Some of the key takeaways that could serve as template for future interactions between sovereign borrowers and their private creditors are included below:

- The government used a consent solicitation in lieu of an exchange offer. This was made possible by the inclusion of a collective action clause in the 2038 bond coming out of the 2013 restructuring.
  - The negotiations took only five months due to a robust creditor engagement clause inserted in the 2038 bond. This clause allowed Belize to call for the formation of a committee and for the creditors to organize and be recognized by the trustee very quickly. The clause also provided for reimbursement of committee expenses for financial and legal advisors, another factor that contributed to rapid formation of the Committee and healthy engagement.
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## MOZAMBIQUE

In October 2016, Mozambique announced it would seek to restructure its external commercial debt, which includes a sovereign bond issued in March (about 7% of GDP), as well as two large, previously undisclosed, loans which make up about 10% of GDP. The authorities proposed not to restructure the bilateral credits (about 40%) and debt owed to multilaterals. They called for a creditor committee to be formed. The government has several times announced the intention to honor guarantees associated with the two loans. In early 2017, Mozambique defaulted on its \$727 million Eurobond. It also missed payments on two state-guaranteed loans. Arrears for all three loans total about \$490 million.

As background, in 2013, Mozambique's state-owned Ematum company borrowed \$800 million to develop the tuna fishing industry under a government guarantee. Later the loan was repackaged into bonds. In 2015, Mozambique indicated that it would seek to restructure the "Ematum" bonds and exchange them for sovereign bonds with extended maturities. In March 2016, an exchange offer was tabled involving interest rates set at 10.5% and price at 80. While the economic terms of the offer were thought to be fair, there were concerns that the proposed exchange made use of exit consents while a liability management exercise has traditionally been on a voluntary basis. Lack of full consultations with bondholders and a compact timeframe for acceptance were also areas of concern. The restructuring was completed by April, with 100% participation, after collective action clauses were used.

However, in mid-April, news emerged that Mozambique's government-owned corporations had borrowed over one billion dollars in government-guaranteed loans, a fact that had not been previously disclosed. Soon after, the IMF suspended their support program for Mozambique and called for an external audit of the three state-owned companies as a precondition for a new adjustment program. The independent audit report was published on June 24, 2017 and indicates that \$500 million in proceeds from the Ematum loan are unaudited and unexplained. In parallel, both the parliamentary investigation and the country's highest administrative court found that the guarantees for the two loans were unauthorized, and violated both the local law and the country's constitution. IMF staff visited Mozambique in July 2017 and issued a statement welcoming the release of the audit, but noted that the government needed to take additional steps to fill the information gaps around the use of loan proceeds.

There have been no formal negotiations between creditor committee representatives and the government's advisors other than informal, preliminary discussions. On January 23, 2017, the bondholders released a press statement listing three preconditions for formal negotiations: publication of the IMF program and Debt Sustainability Analysis, publication of the international audit and acceptance of the principle of inter-creditor equity. According to the bondholders, the last point has three components: separation of bondholders' claims from the two previously undisclosed loans; *pari passu* treatment of official and private claims; and recognizing cash flow relief that has already been provided by the bondholders.

At this point, Mozambique's story is a cautionary tale for other emerging markets, underscoring the importance of good governance policies and transparency and disclosure of debt in preserving investor confidence.

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## VENEZUELA

The economic and financial crisis in Venezuela continued to deteriorate in 2016-2017. The IIF estimates that the economic activity declined 15% in 2016 and will fall another 10% in 2017. Monetary financing of the government has weakened the *bolivar* and caused hyperinflation - which is likely to exceed 1,000% by end-2017. The total public sector fiscal deficit was an estimated 15-20% of GDP in 2016. Public external debt is around \$150 billion (152% of GDP). Venezuela's FX reserves fell below \$10 billion in August 2017, with only \$2 billion in liquid reserve assets. Nevertheless, the government has continued to take extraordinary measures to service external debt.

In 2016, the government used several non-conventional strategies to raise financing, including:

- A bond swap of PDVSA 2017 bond for a 2020 bond backed by 50.1% of CITGO Holding shares
- Financing from Russian oil company Rosneft, backed by 49.9% of CITGO shares
- Issuance of PDVSA notes to suppliers.

Additionally, it restructured its debt to China to reduce oil exports dedicated to debt payments. In January 2017, the government privately placed a \$5 billion bond due in 2036 with a Venezuelan state-owned bank. It was later reported that the bank was trying to sell the bond on the secondary market at a deep discount. In May 2017, Central Bank of Venezuela sold a \$2.8 billion PDVSA bond that matures in 2022 at a 31% face value discount to a US asset manager.

In August 2017, the US Treasury imposed significant financial sanctions against Venezuela that could significantly restrict Venezuela's ability to secure additional new financing. These sanctions prohibit U.S. financial institutions from purchasing any new debt or equity instruments of Venezuela and PDVSA, as well as certain older issuances, like the 2036 sovereign bond. There are \$3.7 billion in bond payments due in the last 3 months of 2017 and another \$9.6 billion in 2018.

The composition of Venezuela's external debt is fairly complex. A large portion of the total public debt is not in bonds, including an estimated \$23 billion bilateral debt with China, \$14 billion in commercial liabilities and large exposure to arbitration claims (est. \$16 billion). This has raised important questions about public-private creditor coordination in the eventuality that there is a debt restructuring. Additionally, PDVSA has a large amount of unsecured debt and PDVSA bonds have no collective action clauses (CACs). Most—but not all—of the sovereign bonds include CACs. However, these are mostly in the form of first generation series-by-series CACs that do not allow aggregation across series. Furthermore, there is some variation in the voting threshold among the bonds containing CACs. In addition to at least two bonds that require 100% of vote for any modifications, two bonds carry 85% threshold and the remainder carry the more standard 75% threshold. Additionally, the older sovereign bonds with no CACs contain an older model *pari passu* clause, while the remaining bonds contain a more watered-down version that allows exceptions to equal treatment “*as may be provided by applicable legislation.*”

## GREECE

After months of back-and-forth, Greece reached a preliminary agreement with the Eurogroup creditors in May 2017, setting the stage for the conclusion of the second review of the third bailout program under

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the European Stability Mechanism (ESM). As part of the agreement, Greece agreed to a package of fiscal and structural reforms that had to be legislated before the Eurogroup meeting in June. These included an additional 18% cut to pension payments and a reduction of the tax-free threshold, with a combined savings equivalent to 2% of GDP, to be applied in 2019. Additionally, it agreed to take measures to liberalize the labor market and sell certain public assets. On June 15, 2017, the Eurogroup formally endorsed the conclusion of the second review, permitting disbursement of €8.5 billion in funds, making it possible for Greece to make €6.26 billion in debt payments due in July. Greece also committed to maintaining a primary surplus of 3.5% of GDP until 2022, and around 2.0% of GDP in the period of 2023-2060.

There was no agreement on debt relief, a measure long advocated by the IMF, which views the Greek debt as unsustainable. The IMF expects the Greek debt-to-GDP ratio to reach 275% by 2060, in stark contrast to Eurozone projections of almost 105%. While the two institutions have disagreed over the issue for months, they reached a compromise in June that allows the IMF to participate in the bail-out program, while putting off disbursement of funds for when the Eurogroup has been able to specify debt relief measures. On July 20, the IMF Executive Board approved in principle (AIP) a new IMF Stand-By Arrangement (SBA) for Greece. The SBA promises \$2 billion in loan funds that can only be released when specific debt relief measures have been defined and debt sustainability is restored.

The parties are expected to discuss the debt relief issues sometime toward the end of the program in August 2018. Greece returned to the sovereign debt market for the first time in three years in late July to sell €3 billion in bonds.

## **MONGOLIA**

The export-dependent Mongolian economy has suffered in recent years with the decline in commodities prices and a near-stop in FDI inflows. Much weaker growth (1% in 2016, down from 9.75% average in 2013-2014) has contributed to a significant deterioration in Mongolia's nominal debt to GDP ratio, which rose from just below 60% in 2015 to almost 88% in 2016, driven by a large fiscal deficit and dramatic exchange rate depreciation.

The IMF Executive Board approved a three-year Extended Fund Facility (EFF) for Mongolia in late May. The total financing package of \$5.5 billion includes around \$3 billion in concessional loans from bilateral and multilateral lenders and a \$2 billion swap line with China, in addition to a \$435 million IMF loan. The IMF program includes increases in progressive taxation, reduction in government spending and governance reforms designed to restart FDI inflows. While the government and the IMF reached the agreement in February, approval was unexpectedly delayed in late April after the Mongolian Parliament passed legislation that conflicted with the IMF program by requiring that sales proceeds from major foreign investments pass through a Mongolian bank account.

Despite the delays, the IMF program discussions were completed on a timely basis, helping to maintain market confidence. After the signing of the staff-level agreement in February, Mongolia successfully exchanged the \$580 million, state-guaranteed Development Bank of Mongolia (DBM) bond due on March 21, 2017 for a new, seven-year government bond with a coupon of 8.75%. The exchange was market-friendly with over 80% of bondholders participating. Mongolia also has another \$0.5 billion bond due in January 2018, which is likely to be refinanced in the market.

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## **PUERTO RICO**

On May 3, 2017, Puerto Rico triggered the largest municipal bankruptcy in U.S. history, setting the stage for a debt restructuring unprecedented in size and complexity for the U.S. municipal bond market. A legal stay protecting the island from lawsuits expired on May 1, without an agreement with the creditors. Two days later, the federal oversight board, which has been overseeing the U.S. territory's finances under the authority of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA),<sup>7</sup> a 2016 federal law for insolvent territorial governments, filed a petition in the U.S. district court in San Juan to trigger Title III of the law, paving the way for a court ordered debt restructuring. As a U.S. territory, Puerto Rico is not eligible for chapter 9 proceedings. On June 30, 2016, U.S. President Barack signed PROMESA into law, creating a legal framework for restructuring the debt of Puerto Rico and other U.S. territories.

On May 5, Chief Justice of the Supreme Court, John Roberts, assigned the U.S. District Court Judge Laura Taylor Swain, of the Southern District of New York, to administer the Title III proceedings in the federal courthouse in San Juan, Puerto Rico. Swain served as a bankruptcy judge before assuming her current position at the District Court. While Title III includes some features of chapter 9, it also includes many innovations that have not been tested in court before, in addition to some protections for creditors that don't exist under chapter 9. However, it allows for a cramdown on dissenting creditors.

In addition to \$73 billion in debt, the island has \$50 billion in unfunded pension liabilities, which are also expected to be restructured. The start of the bankruptcy process will likely lead to a stay on the existing creditor lawsuits against the island. The debt restructuring process is likely to be lengthy - there are at least 18 different issuers and some of the bonds carry embedded legal protections. The latter have already caused inter-creditor disagreements over payment priority.

## **SUDAN**

In January 2017, the U.S. temporarily lifted trade and investment sanctions on Sudan and gave the country six months of probation to make progress on meeting additional security and counter-terrorism-related conditions, including: reduction in offensive military activity, cessation of hostilities in Darfur and with South Sudan, improved humanitarian access and co-operation on counter terrorism. In July, the Trump administration announced that it was extending the probationary period for another three months. Sudan has been under sanctions since 1997 due to suspected ties to terrorism and human rights violations in Darfur. While the country is eligible for debt relief under the HIPC initiative, making progress is conditional on normalization of relations with international creditors, including the IMF. It has almost \$53 billion in external debt (56% of GDP) and, as of end-2015, 86% of the debt was in arrears.

Sudan is about 967 million SDR in arrears to the IMF. The composition of the external debt is: 37% Paris Club, 38% non-Paris Club, 11% multilateral and 14% commercial creditors. In January, a group of London debtholders formed a creditor committee ("The Sudan London Club").

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### ***e. International Capital Markets and Emerging Markets Roundtable***

On April 23, 2017, the Group of Trustees of the *Principles*, in collaboration with the IIF, hosted the 11<sup>th</sup> annual International Capital Markets and Emerging Markets Roundtable. Similar to past years, the meeting brought together almost 250 senior finance policymakers from public and private sectors during the week of the IMF-World Bank Spring Meetings. Two important topics were on the agenda: 1) rise in political risk in mature economies and the implications for capital flows to EMs; and 2) mobilizing resources for infrastructure investment in emerging markets.

The turbulent political environment in many mature markets served as the backdrop for this year's event. The first session, *Political Risk/Uncertainty and Impact on Capital Flows to EMs*, touched on more than one topic playing out on the front pages of the major international newspapers, including the French presidential elections occurring on the same day. The unexpected outcomes of some of 2016 risk events—most importantly Brexit and the victory of Donald Trump in the U.S. elections—have made an impact on the post-world-war-II international political and economic order. This has had significant implications for the future of the international trade framework and for global capital flows—particularly to emerging markets. Participants discussed the implications—both positive and negative. Political uncertainty in advanced markets has not necessarily or automatically impacted capital flows from advanced economies into EMs. Institutional quality and domestic governance practices have become relatively more important for both sovereign ratings and capital flows to EMs. While capital flows to EMs have been resilient, divergent monetary policy among the leading advanced economies in the coming years could be a risk factor.

The second session, *Promoting Infrastructure Investment in Emerging Markets*, continued the discussion on mobilizing resources for infrastructure investment, an important topic, familiar to those who attended the 2015 Roundtable. With emerging market policymakers facing new international economic challenges, infrastructure investment can play an important role in stimulating domestic demand and underpinning growth. However, such efforts have been constrained by a host of impediments. Participants discussed lessons learned from recent initiatives and ongoing efforts to overcome these impediments, including the development of the *Principles to Enhance the Protection of Investor Rights in Long-Term Infrastructure Investment* by the IIF's Council for Asset Investment Mangers (CAIM). It was highlighted that multilateral development banks have an important role to play both through financing and risk allocation, and especially through promotion of good governance principles, including transparency, respect for contractual rights and a sound framework for dispute resolution.

## **III. Sovereign Bond Contract Reform**

### ***a. Amendment of Annex VI of the Principles***

At the 2016 annual Group of Trustees meeting in Washington D.C., the PCG received a strong mandate by the Trustees to promote and update the principle on creditor engagement and creditor committees, while preserving the good faith criterion. While there are differences over modalities of engagement, it is widely accepted that creditor engagement in times of crises is key to timely crisis resolution, while

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minimizing the chance of holdout creditors. Members of the PCG, along with the IIF and ICMA, have been collaborating to update the Annex VI of the *Principles* – “Best Practices for the Formation and Operation of Creditor Committees”, which was last updated in 2012. The *Principles* have historically recommended the use of creditor committees in instances where a debtor defaults on debt to private creditors and investors. This recommendation should be extended to pre-default cases where a restructuring or reprofiling is needed. Additionally, Annex VI is being amended in order to add references to aggregated CACs, as well as to address situations when more than one committee is formed, and the issue of costs. The amended Annex VI, and an Executive Summary, will be presented for the approval by the Trustees at the 2017 annual meeting.

## **b. Public/Private Sector Coordination Issues**

In the context of the 17th annual meeting of the IIF with the Paris Club of creditors that took place in June 2017, private and official creditors reviewed past experiences and the challenges ahead to ensure the efficiency of sovereign debt restructurings by strengthening coordination between public and private sector creditors. Discussion centered around coordination, cooperation and information sharing between public and private sector creditors before and during debt restructuring. This is becoming more important as the official sector creditors have held an increasing portion of the sovereign debt in some recent debt restructurings, calling into question the issue of fair burden sharing. The issue is particularly salient this year as the IMF is reviewing its lending into arrears (LIA) policy. The LIA policy gives differential protection to private and official creditors. Under LIA, the IMF can lend to a sovereign in arrears to private creditors if the debtor is acting in good faith, while it has historically employed a “non-toleration” policy for arrears to the official sector. In December 2015, the IMF [altered](#) the policy to allow lending to countries with arrears to official creditors under special circumstances if three criteria are met: 1) there is need for immediate financial support and the country is pursuing appropriate policies; 2) the debtor is making good faith efforts to reach an agreement with the creditor; and 3) the decision to provide financing would not negatively impact the Fund’s ability to mobilize official financing packages in future cases. However, the changing landscape of the sovereign debt markets is blurring boundaries between bilateral and private claims. Foreign public sector entities, like sovereign wealth funds and central banks, are holding growing amounts of sovereign bonds. Furthermore, it is becoming more common for official creditors to provide financing in the form of bonds. Fair burden sharing by all stakeholders has been and will continue to be the cornerstone of the most successful sovereign debt restructuring agreements. In future sovereign debt crises, private bondholders will, more often than not, be minority creditors. Thus, it will be increasingly important that all creditors are included in a debt restructuring.

## **c. G20-Sponsored Effort to Develop GDP-linked Bonds**

The Trustees encouraged private sector representatives to engage with the IMF, Bank of England and ICMA (the Ad Hoc Working Group) in the G-20-sponsored process of designing market acceptable GDP-linked instruments, which could aid in both crisis prevention and during debt restructurings. Designing an instrument that aligns the sovereign’s payment obligations with their ability to pay could be propitious at a time when issuers are facing elevated debt levels. At the same time, such instruments could be popular with some investors who stand to gain if the growth recovers. Over the last year, the

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Working Group has been developing the “[London term sheet](#)”, a model set of terms and conditions. The London term sheet has been presented to both public and private sector stakeholders at various conferences over the last year. Private sector members of the PCG and the IIF Committee for Sovereign Risk Management also provided feedback on the term sheet.

The London term sheet proposes indexing the coupon and debt repayment to nominal GDP. In response to requests by many investors, the new iteration of the term sheet contains an option for a floor on the principal. GDP-linked bonds are designed to be issued in local currency, although there is an option for payments to be made in FX. Legally, the bonds are designed to be issued under foreign law and will rank *pari passu* with all other debt of the issuer. The term sheet contains the most recent ICMA aggregated CACs but allows aggregation only with other GDP-linked securities. Similarly, the cross-default clause cross-accelerates only with other GDP-linked securities. The last two points have been a source of concern for some investors as it creates conditions for structural subordination of plain vanilla bonds, especially if there are any GDP-linked bonds issued in FX currency. Investors judged it undesirable to create two groups of instruments that would add unwanted complexity in the event of a debt restructuring. Investors also strongly emphasized the need to develop a credible mechanism for the reporting, calculation, and publishing of the GDP data. As an extra protection against manipulation of the GDP data, the term sheet includes a put option that can be triggered in certain situations as well as a penalty early redemption amount if GDP data are unavailable in a timely manner.

While this initiative has advanced the operational, commercial, and legal aspects for GDP-linked bonds, the instruments still need to be embraced by the greater community of issuers and investors. The Working Group is planning several public and private presentations to broaden the awareness of the London term sheet among the stakeholders. Additionally, it is crucial that there are issuers from advanced economies to develop credible benchmark transactions. Recent IMF working paper ([WP17/117](#)) shows that even modest amounts of GDP-linked bonds (20% of debt stock) could substantially increase a country’s debt limit—15% in advanced economies and 8% in emerging markets.

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#### IV. Investor Relations and Data Transparency

Since the launch of the *Principles for Stable Capital Flows and Fair Debt Restructuring* in 2004, a growing number of sovereign borrowers have recognized the importance of active investor relations (IR) programs and strong data dissemination practices as tools to strengthen their relationship with the investor community. The emphasis of these programs on data and policy transparency and proactive dialogue between sovereign debt issuers and investors is fundamental to crisis prevention and resolution. The *Principles* are built on good market practices by both issuers and investors and are complemented by the support of these practices by other agencies and international financial institutions, including the IMF and the World Bank. Under the current market environment, and particularly with the prospective normalization of U.S. monetary policy, emerging markets could face pressures in attracting private capital inflows. Enhancing IR and data transparency practices could play an important role in attracting capital flows and maintaining the stability of sovereign debt markets.

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 make market-informed policies. They have also made it possible for investors to become better informed about the current economic developments and prospects as well as the issuing country's key economic policies and objectives. By helping sovereign debt issuers build trust and long-term relationships with their investors during periods of calm financial markets, IR programs have proven to be helpful instruments for authorities to navigate turbulent periods, as the experience with the 2008-09 global financial crisis and subsequent periods of market volatility have demonstrated. As such, they are key elements of the *Principles*.

Emerging market sovereign debtors have made enormous strides over the past several years in enhancing their IR and data dissemination practices. These practices cover a range of activities and communication channels, and they entail different levels of intensity and formality in dealing with investors. A number of the relatively more advanced emerging market countries with comparatively heavy reliance on bond issuance in international capital markets have found it useful to establish formal investor relations programs (IRPs). These programs involve the establishment of specialized units with expert and identifiable staff and dedicated official websites that facilitate communication and interaction with investors. Out of the 40 countries monitored by the IIF, the number of countries with IRPs has increased from 5 in 2004 to 15 by 2016. Korea discontinued its official IR website in 2012, though it continues to be highly transparent in economic data provision. The countries with IRPs are listed in Table 1.

The IIF monitors and assesses the IR and data dissemination practices of most emerging market and developing countries from different geographical regions, including sub-Saharan Africa. The number of countries covered has increased since the IIF's first assessment in 2005, from 30 major issuers to 40 by 2015. The 2017 report covers only 39 countries due to a request by Paraguay to be temporarily excluded from the rankings as it works on reorganizing its investor relations activities.

The usefulness of effective IR practices and data transparency is not limited only to emerging market and developing economies. They can be equally useful to all sovereign debt issuers. Yet, in practice, very few advanced countries have formal IRPs as data and policy transparency is instead achieved through open communication and dialogue between the authorities of these countries and their investors --who tend to be predominantly financial institutions, institutional investors and large asset managers. Foreign investors are also increasing their exposure to emerging and frontier markets and to new issuers among developing countries.

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## a. IIF Assessments of IR and Data Dissemination Practices

The IIF's deep involvement with investor relations and data transparency practices in emerging market economies dates back to the mid-1990s. Leveraging on its vast private sector membership, the IIF has developed a set of 20 criteria for the evaluation of IR practices and a set of 23 criteria for the evaluation of the data dissemination practices of emerging market sovereign debt issuers. These criteria are listed in Tables 3 and 4. Each country is assigned a weighted score based on the number of criteria it meets and the weights of each of these criteria ranging from 0 to 3. Through 2015, scores were fulfilled in a binary fashion, wherein evidence of satisfaction of the criterion guaranteed full credit, while no evidence resulted in a zero [0] score. Starting in 2016, countries are awarded partial credit in order to make the scorecard more granular while rewarding countries for incremental improvements. A detailed description of the evaluation criteria is provided in Appendices A and B, while the best practices for investor relations are summarized in Annex V.

The criteria used reflect the areas that are of high importance to investors. Out of the 20 criteria used for IR practices and data transparency, 7 carry a weight of 3 and include factors such as the existence of a formal investor relations unit with dedicated staff, subscription to the IMF's Special Data Dissemination Standards (SDDS), effective transparency of market-related data, and the availability of forward looking policy information. Similarly, among the 23 assessment criteria for data dissemination practices, 6 carry a weight of 3 and include factors such as the availability of time series data and the adoption of accrual accounting for central government finance statistics, and the availability

<b>Country</b>	<b>IR Program Launching Year</b>	<b>Location</b>
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 and Public Credit
Chile	Upgraded 2009	Ministry of Finance
Poland	February 2009	Ministry of Finance
The Dominican Republic	September 2009	Public Credit Directory, Ministry of Finance
Panama	April 2011	Ministry of Economy and Finance
Uruguay	April 2011	Public Credit Directory, Ministry of Economy and Finance
South Africa	June 2011	National Treasury
Russian Federation	2016	Ministry of Finance, Central Bank of Russia

of time series data on central government debt and its amortization schedule.

The IIF reviews regularly with market participants the relative importance of countries' investor relations and data dissemination practices in their investment decisions. As in previous years, The IIF sought feedback from members of the IIF Council on Asset and Investment Management (CAIM) Working Group, the IIF Committee on Sovereign Risk Management (CSR) and the private sector members of the PCG. The investors' feedback indicates that most view country's investor relations programs as very important to making investment decisions. Good quality websites that aggregate data in one place, as well as dedicated staff that facilitates communication between policy makers and investors are especially valued. Standards for data dissemination were judged equally if not more important by the investors, with timeliness and quality deemed of critical value.

## **b. 2017 IIF Assessments Results**

The 2017 IIF assessment covers the IR and data dissemination practices of 39 emerging market economies that are most active in international debt capital markets. The full scoring of each country covered in the IIF IR and data dissemination indices is shown in Tables 2 and 3.

According to the 2017 IR and data transparency rankings, several emerging markets made considerable improvements in their investor relations programs. Romania continued to build on the progress made in the 2016 assessment, gaining an additional 5.5 points by adding an archive of investor presentations on its website and making progress towards institutionalizing the investor relations practices within the debt issuance unit of the Ministry of Finance. Thailand, Nigeria and Costa Rica also made welcome improvements. Thailand's score increased from 23 to 28 (out of 42) due to improvements in effective data transparency, providing macroeconomic data in user friendly format, and implementation of regular self-assessment. Nigeria's ranking increased from 14 to 19 due to holding a non-deal roadshow and improvements in criteria related to investor feedback reflected in policy decision and senior policymakers accessible to investors. Costa Rica's ranking increased from 20 to 24.5 due to making progress towards institutionalizing IR activities and making improvements in criteria related to active investor contact list and web-based communication with investors.

Overall, the 2017 rankings of IR and data transparency practices indicate that 17 out of the 39 countries attained fairly high scores in the top quartile (32-42), while ten countries had scores in the lowest quartile (0-11). The number in each category increased by one over 2016, indicating that there might be a divergence between the high and low-performing countries. Indonesia, Mexico, and Turkey remain at the top tier with a maximum score of 42. They are followed by Brazil, Peru, Russian Federation, Colombia, Uruguay, South Africa, the Philippines, Panama, Romania and Poland in second place (with scores of 37-41 out of 42), and by a third group of countries, comprising Dominican Republic, Chile, Hungary and Korea (32-36 out of 42).

The 2017 data dissemination rankings are largely unchanged from 2016 with a few noted improvements. Brazil's score increased by two points after it started incorporating GFSM 2014. Malaysia's score also increased by two points for disseminating data on non-residents holding of public debt and non-resident's holdings of private debt issued domestically. Similarly, Russia's score increased by two points for dissemination of data related to resident's holdings of public debt issued internationally and for making improvement in timeliness of data on central government operations.

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The 2017 data dissemination rankings indicate that 21 countries rank in the top quartile (33-44) and only two countries in the lowest quartile (0-11). Romania and Turkey remain in the top tier, with both countries earning the highest score of 44, followed by eight countries in the second tier (Brazil, Chile, Mexico, Peru, Dominican Republic, Indonesia, South Africa, and Uruguay) with scores ranging from 41 to 43. The third tier of top performers (with scores from 37-39) includes Croatia, Hungary, Poland, Russia, Morocco, Bulgaria and Egypt. All these countries continue to set good examples in data dissemination practices in their respective regions.

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

Investor Relations Practices Criteria		Investor Relations Office/Staff		Investor Relations Website			Dissemination of Macroeconomic Data and Policy Information			
		Presence of Institutionalized Investor Relations Activities	Investor Relations Staff Identifiable and Reachable through Website(s)	Central Bank and Government Agency Website(s) Available in English	Reciprocal Links to Central Bank, Ministry of Finance, and Other Government Agency Websites	Investors Able to Register for Website Subscription	Country Subscribes to SDDS	Effective Data Transparency of User-Relevant Data	Macro-economic Data Presented in User-Friendly Format	Historical Policy Information Available
	Weight	2	3	3	1	1	3	3	2	2
Country	Score									
Belize	8	0	0	3	0	1	0	1	0	0
Brazil (Treasury)	41	2	3	3	1	1	3	3	2	2
Bulgaria	22.5	0	0	3	0.5	1	3	3	2	2
Chile	35	2	3	3	0	0	3	3	2	2
China	12	0	0	3	0	0	3	1	2	0
Colombia	40.5	2	3	3	0.5	1	3	2	2	2
Costa Rica	24.5	1	3	0	1	1	3	1	0	0
Croatia	15	0	0	3	1	0	3	3	2	0
Dom. Rep.	36	2	3	3	1	1	0	3	2	0
Ecuador	6	0	0	0	0	0	3	2	0	0
Egypt	20	1	0	3	0	0	3	2	0	2
Gabon	2	0	0	0	0	0	0	1	0	0
Ghana	8	0	0	3	0	0	0	0	0	2
Hungary	33	2	3	3	0	1	3	3	2	2
Indonesia	42	2	3	3	1	1	3	3	2	2
Kenya	10	0	0	3	1	0	0	1	0	2
Korea, South	32	2	0	3	1	1	3	2	2	2
Lebanon	25.5	0	0	3	0	1	0	2	2	2
Malaysia	22	0	0	3	1	1	3	2	2	2
Mexico	42	2	3	3	1	1	3	3	2	2
Morocco	27	2	3	3	1	1	3	2	2	0
Nigeria	19	0	0	3	0	0	0	1	2	0
Pakistan	21	0	0	3	1	1	0	2	2	2
Panama	38	2	3	3	1	1	0	2	2	2
Peru	41	2	3	3	1	1	3	3	2	2
Philippines	39	2	3	3	1	1	3	2	0	2
Poland	37	2	3	3	1	1	3	3	2	2
Romania	37.5	1	1.5	3	1	1	3	3	2	2
Russia	41	2	3	3	1	1	3	3	2	2
South Africa	39.5	2	3	3	0.5	0	3	3	2	2
Tanzania	4	0	0	3	0	0	0	0	0	0
Thailand	28	1	0	3	1	1	3	3	2	2
Tunisia	24	0	0	1	1	0	3	2	2	2
Turkey	42	2	3	3	1	1	3	3	2	2
Ukraine	16	0	0	3	0	1	3	1	0	2
Uruguay	40.5	2	3	3	1	1	3	3	2	2
Venezuela	5	0	0	0	1	0	0	2	0	0
Vietnam	7	0	0	3	0	0	0	0	0	0
Zambia	10	0	0	3	0	0	0	0	0	0

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

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

**TABLE 3**  
**Assessment of Data Dissemination Practices (Prioritized)**

Elements in Data Dissemination 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 Towards GFSM 2001 (Accrual Accounting)	CGD Timeliness	CGD Debt Periodicity	Time Series Availability	Domestic and External Debt Breakdown Availability
	Weight	2	1	2	3	1	1	3	2	1	3	1
Country	Score											
Belize	15	1	0	0	3	0	0	0	0	1	3	1
Brazil	43	2	1	2	3	1	1	3	2	1	3	1
Bulgaria	37	2	1	2	3	1	1	3	2	1	3	1
Chile	42	2	1	2	3	1	1	3	2	1	3	1
China	15	2	1	2	0	0	0	3	2	1	0	1
Colombia	34	2	1	1	3	1	1	1	2	1	3	1
Costa Rica	27	2	1	2	0	1	1	0	2	1	3	1
Croatia	39	2	1	0	3	1	1	3	2	1	3	1
Dom. Rep.	41	1	1	2	3	1	1	3	2	1	3	1
Ecuador	28	2	1	0	3	1	1	0	0	1	3	1
Egypt	37	2	0	2	3	1	1	3	2	1	3	1
Gabon	15	1	0	0	0	1	0	0	2	1	0	1
Ghana	13	1	1	1	3	1	1	0	2	1	0	0
Hungary	39	2	1	2	3	1	1	3	2	1	3	1
Indonesia	41	2	1	2	3	1	1	3	2	1	3	1
Kenya	25	1	1	0	3	1	1	0	2	1	3	1
Korea, South	34	2	1	2	3	1	1	3	2	1	3	1
Lebanon	27.5	1	1	0	3	1	1	0	2	1	3	1
Malaysia	28	2	1	1	3	1	1	0	2	1	3	1
Mexico	42	2	1	2	3	1	1	3	2	1	3	1
Morocco	38	2	1	2	3	1	1	0	2	1	3	1
Nigeria	20	1	1	0	3	0	1	0	0	1	3	1
Pakistan	30	1	1	0	3	1	1	3	2	1	3	1
Panama	30	1	1	1	3	1	1	0	2	1	3	1
Peru	42	2	1	2	3	1	1	3	2	1	3	1
Philippines	31.5	2	1	2	3	1	0	0	2	1	1.5	1
Poland	39	2	1	2	3	1	1	3	2	1	3	1
Romania	44	2	1	2	3	1	1	3	2	1	3	1
Russia	39	2	1	1	3	1	1	3	2	1	3	1
South Africa	41	2	1	2	0	1	1	3	2	1	3	1
Tanzania	13	1	1	0	3	1	1	0	0	1	3	1
Thailand	35	2	1	2	3	1	0	3	2	1	3	1
Tunisia	29	2	1	2	3	1	1	0	2	1	3	1
Turkey	44	2	1	2	3	1	1	3	2	1	3	1
Ukraine	30	2	1	2	3	1	1	0	2	1	3	1
Uruguay	41	2	1	2	3	1	1	0	2	1	3	1
Venezuela	33	1	1	0	3	1	1	0	2	0	3	1
Vietnam	4	1	0	0	0	0	0	0	0	0	0	0
Zambia	10	1	1	0	3	1	1	0	0	0	1	0

\* Countries subscribing to the IMF 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.



**TABLE 3**  
**Assessment of Data Dissemination Practices (Prioritized) - continued**

Central Government Debt (CGD)***				External Debt****								Country
Contingent Liabilities Availability	Term Break-down Done 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's Holdings of Public Debt Issued Internationally	Non-Resident's Holdings of Public Debt Issued Domestically	Non-Resident's Holdings of Private Debt Issued Domestically	Amortization Schedule Disseminated at least Every 6 Months	Amortization Schedule Presents Private and Public Sector Separation	
2	1	3	2	2	1	3	1	2	2	3	2	
												Country
0	0	0	0	2	1	3	0	0	0	0	0	Belize
1	1	3	2	2	1	3	1	2	2	3	2	Brazil
2	1	3	0	2	1	3	1	2	2	0	0	Bulgaria
2	1	3	2	2	1	3	1	0	2	3	2	Chile
0	0	0	0	2	1	0	0	0	0	0	0	China
2	1	3	0	2	1	3	1	2	2	0	0	Colombia
2	1	1	2	2	1	3	1	0	0	0	0	Costa Rica
2	1	3	0	2	1	3	0	2	2	3	2	Croatia
2	1	3	2	2	1	3	1	2	2	3	0	Dom. Rep.
2	1	3	0	1	1	3	0	2	2	0	0	Ecuador
2	1	3	0	2	1	3	1	0	0	3	2	Egypt
0	1	3	0	2	1	0	0	0	2	0	0	Gabon
0	1	0	0	0	1	0	0	0	0	0	0	Ghana
2	1	3	0	2	1	3	1	2	2	2	0	Hungary
2	1	3	0	2	1	3	0	2	2	3	2	Indonesia
2	0	0	0	0	1	3	1	0	2	0	2	Kenya
2	1	3	0	2	1	3	0	2	0	0	0	Korea, South
0	1	3	0	2	1	3	0	0	0	1.5	2	Lebanon
2	1	0	0	2	1	3	0	2	1	0	0	Malaysia
2	1	3	0	2	1	3	1	2	2	3	2	Mexico
2	1	3	2	2	1	3	0	2	2	3	0	Morocco
0	0	3	0	2	1	3	0	0	0	0	0	Nigeria
2	1	0	0	2	1	3	0	2	2	0	0	Pakistan
2	1	3	0	2	1	3	0	0	0	3	0	Panama
2	1	3	0	2	1	3	1	2	2	3	2	Peru
2	1	3	0	2	1	3	1	2	2	0	0	Philippines
2	1	3	0	2	1	3	1	2	2	0	2	Poland
2	1	3	2	2	1	3	1	2	2	3	2	Romania
0	1	3	0	2	1	3	1	2	2	3	2	Russia
2	1	3	2	2	1	3	1	2	2	3	2	South Africa
0	0	0	0	0	1	0	0	0	0	0	0	Tanzania
2	1	0	0	2	1	3	0	2	0	3	2	Thailand
2	1	0	0	1	1	3	0	2	2	0	0	Tunisia
2	1	3	2	2	1	3	1	2	2	3	2	Turkey
2	1	0	0	2	1	3	0	2	2	0	0	Ukraine
2	1	3	2	2	1	3	1	2	2	3	2	Uruguay
2	1	3	0	2	1	3	1	2	2	3	0	Venezuela
0	0	0	0	2	1	0	0	0	0	0	0	Vietnam
0	0	0	0	0	0	0	0	2	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:

Preferably, amortization payments presented at least annually for a period of at least five years from the effective date of the debt data.

Annual data should be supplemented with quarterly data at least for the year immediately ahead.

Timeliness: 1 quarter after the end of the reference period

Periodicity: Quarterly

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## **APPENDIX A. EVALUATION CRITERIA FOR INVESTOR RELATIONS PROGRAMS**

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

### **1. Presence of institutionalized IR activities**

A formal Investor Relations Program (IRP) is characterized by an Investor Relations Office (IRO), designated IR officers, and an IR website. The office may be an independent entity or a department within another financial agency, such as the Ministry of Finance (or Treasury), or Central Bank. Most IROs maintain a separate website; however, in some cases 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.

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

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

### **3. Central bank and government agency websites available in English**

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

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

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

Key websites include the IRO, Central Bank, and Ministry of Finance (or Treasury) websites. This criterion is not met if one agency website contains links, but others do not reciprocate.

Additional links to government agencies such as the debt management agency or national statistics office are recommended but not required to meet this criterion.

### **5. Investors able to register for website subscription**

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

### **6. Country subscribes to SDDS**

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

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## **7. Effective data transparency of key elements**

Country authorities must disseminate key data related to central government operations, central government debt, and external debt in a timely manner. This criterion is directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 3-point scale, with the maximum points awarded to countries with the highest levels of data transparency.

## **8. Macroeconomic data presented in user-friendly format**

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

## **9. Historic policy information available**

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

## **10. Forward-looking policy information available**

Investors are able to identify the country's economic policy planning through the presentation of comprehensive economic outlook reports for the relevant period. This includes the identification of monetary and fiscal policy objectives, as well as assumptions of the economic variables relevant for the individual country. The presentation of the country's debt management strategy is encouraged but not required to meet this criterion.

## **11. Structural information available**

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

## **12. Active investor contact list**

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

## **13. Web-based communication with investors**

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

## **14. Bilateral meetings with investors**

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

## **15. Non-deal roadshow(s)**

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

## **16. Investor conference call(s)**

Country authorities conduct regular investor conference calls on key economic data and policies at least every quarter. To qualify for this criterion, the call must be public. Investors should be invited via email

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

### **17. Archives of investor presentations and/or conference call related materials available on websites**

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

### **18. Investor feedback reflected in policy decisions**

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

### **19. Senior policymakers’ participation in IR activities**

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

### **20. Regular self-assessment of IR activities**

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

## **DATA DISSEMINATION PRACTICES**

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

### **Central government operations**

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

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

we have documented the progress toward the adoption of the GFSM 2001.

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

### **Central government debt**

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

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

### **External debt**

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

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

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

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

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## **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

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developments and policies. Following a press release, it is important for the IRO to be prepared to provide more detailed information on request.

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



## ANNEX I. THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING*<sup>1</sup>

### PREFACE

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

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

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

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

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

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

The *Principles* build on the progress since the mid-1990s to identify effective measures in order to shore up crisis prevention and encourage their continued implementation. The *Principles* promote early crisis containment through information disclosure, debtor-creditor consultations, and course correction before problems become unmanageable. They also support creditor actions that can help to minimize market contagion. In cases where the debtor can no longer fulfil its payment obligations, the *Principles* outline a

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<sup>1</sup>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.

process for market-based restructuring based on negotiations between the borrowing country and its creditors that involve shared information, are conducted in good faith, and seek to achieve a fair outcome for all parties. Such a process maximizes the likelihood that market access will be restored as soon as possible under sustainable macroeconomic conditions.

## PRINCIPLES

### 1. Transparency and Timely Flow of Information

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

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

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

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

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

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

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

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

*Creditors' support of debtor reform efforts.* As efforts to consult with investors and to upgrade policies take hold, the creditor community should consider, to the extent consistent with their business

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

### 3. Good-Faith Actions

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

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

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

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

*Debtor and creditor actions during restructuring.* Debtors should resume, to the extent feasible, partial debt service as a sign of good faith and resume full payment of principal and interest as conditions allow. Debtors and creditors recognize in that context that typically during a restructuring, trade lines are fully serviced and maintained. Debtors should avoid additional exchange controls on outflows, except for temporary periods in exceptional circumstances. Regardless of the specific restructuring mechanics and procedures used (i.e. amendment of existing instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced. Debtors should retain legal and/or financial advisors.

### 4. Fair Treatment

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

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

## ANNEX II. **ADDENDUM TO THE PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING<sup>1</sup>**

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 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

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<sup>1</sup>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*.

by private creditors and market participants in general.

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

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

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

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

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

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

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

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

### **4. Good-Faith Actions in Cases of Debt Restructuring**

#### **(a) Voluntary Good-Faith Process**

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Good-faith negotiations remain the most effective framework for reaching voluntary debt restructuring agreements among sovereign debtors and their diversified private creditor community, particularly in the complex cases of mature market issuers that are members of currency unions. Such a framework has proved to be efficient in facilitating appropriate agreements on crisis resolution, while containing the adverse impact on market confidence and other disruptions and concerns caused by spillover and contagion risks.

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

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

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

### **(b) Debtor and Creditor Actions During Debt Restructuring**

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

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

It should be recognized that the attainment of debt sustainability over time is a dynamic, complex process that depends critically on the quality and market credibility of actual and prospective adjustment policies undertaken by the debtor, the direction of macroeconomic policies, the terms and volume of financial support or debt relief provided by official and private creditors, and the prospects for the continuation or resumption of market access at reasonable terms. As such, the debt sustainability

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analysis entails judgments and assessments that are often not easily amenable to quantitative rules and that require revisions as macroeconomic parameters evolve. The contributions toward achieving debt sustainability by private creditors as well as other creditors should be considered simultaneously, with no one creditor group considered as a residual source of funding on an *ex ante* basis.

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

### **(c) Creditor Committee Policies and Practices**

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

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

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

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

### **(d) Tools for Debt Restructurings**

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

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

## **5. Fair and Comparable Treatment of All Creditors**

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

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

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## ANNEX V. IIF BEST PRACTICES FOR INVESTOR RELATIONS<sup>1</sup>

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

### IRO/IR Staff

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

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

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

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

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

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

## IR Website

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

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

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

## Dissemination of Macroeconomic Data and Policy Information

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

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

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

- **Data on economic performance** based on the international data standards as they pertain to the International Monetary Fund's (IMF's) encouraged special data dissemination standard (SDDS). This requires timely provision of statistics of the real sector as well as of the fiscal, external, and financial sector statistics. These data should be supplemented as necessary by methodological notes. The IRO website should contain an indexed archive of the data or links to other government sites where the data are available.
  - **Data for the 15 core indicators for financial sector soundness as identified by the IMF.** The IRO website also should contain an indexed archive of this information.
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- **Forward-looking information on economic policies** such as budget projections, monetary policy targets, and structural factors (e.g., legal, regulatory, governance frameworks) supported by the data as appropriate. The IRO website also should contain an indexed archive of this information.

### Additional Key Data

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

- **Central government operations.** Tracking data for central government operations allows for a more timely analysis of a country's fiscal position than general government or public sector data.
- **Central government debt.** The assessment of debt sustainability is an integral feature of the country risk assessment. Disclosure of debt service schedules and currency breakdowns are needed to provide a more accurate picture of countries' future payment obligations. Countries also are encouraged to disseminate information that reflects liabilities of the central government in a comprehensive fashion and, where relevant, debt of other entities that is guaranteed by the central government. Disclosure of such information can help identify fiscal risks under different scenarios at an early stage.
- **External debt.** As demonstrated by previous crises, a country's debt profile can influence its resilience to external shocks. The availability of assets and liabilities of the private and public sector held by non-residents provides a picture of potential balance sheet vulnerabilities in domestic sectors. To carry out an adequate assessment of a country's international position, investors attach importance to the availability of non-resident holdings of private and public debt issued domestically as well as the resident holdings of external debt issued internationally.

### IR Contact List

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

### Feedback and Communication Channels

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

These channels could be established through:

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

**Teleconferences or Internet-based webcasts** should be led by senior "decision makers" such as the undersecretary of finance or deputy governor of the Central Bank and can be moderated by the head

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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 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.
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## ANNEX VI.

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

#### I. Introduction

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

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

#### II. Creditor Engagement Best Practice Principles

##### 1. Initial Formation

The initiative of forming a Creditor Committee can be taken through various approaches: the debtor can ask for a Committee to be formed – this has occurred in a few cases; the debtor and its creditors and investors (hereafter called “the creditor community”<sup>2</sup>) agree to form a Committee – this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

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

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## ***2. Cooperation and Trust***

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

## ***3. Diversity of the Creditor Community***

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

## ***4. Speed of Process***

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

## ***5. Confidentiality***

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

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

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

It is 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. The need for such negotiations between the parties is increased and even more significant if the requisite thresholds envisaged under the aggregated CACs are to be met and the sovereign is to benefit fully from the enhanced collective action mechanism.

### **II. THE ROLE OF GOOD-FAITH NEGOTIATIONS AND CREDITOR COMMITTEES IN THE PRINCIPLES**

#### **General Guidelines for Sovereign Debt Restructurings**

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

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Principles recognize the sovereignty of the debtor while upholding the sanctity of contracts during debt restructurings.

### ***Good Faith***

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

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

### ***Creditors and Debtors at the Center of the Negotiation Process***

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

### ***Sovereignty of the Debtor***

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

### ***The Role of Creditor Committees in the Principles***

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

Under the sub-principle "vehicles for restructuring" the *Principles* state,

*"The appropriate format and role of negotiation vehicles such as a creditor committee or another representative creditor group (hereafter referred to as a "creditor committee") should be determined*

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*flexibly and on a case-by-case basis. Structured, early negotiations with a creditor committee should take place when a default has occurred in order to ensure that the terms for amending existing debt contracts and/or a voluntary debt exchange are consistent with market realities and the restoration of growth and market access and take into account existing CAC provisions. If a creditor committee is formed, both creditors and the debtor should cooperate in its establishment."*

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

- Adopt rules and practices, including appropriate mechanisms to protect material non-public information;
- Coordinate across affected instruments and with other affected creditor classes with a view to form a single Committee;
- Be a forum for the debtor to present its economic program and financing proposals;
- Collect and analyse economic data;
- Gather, evaluate, and disseminate creditor input on financing proposals; and
- Generally act as a communication link between the debtor and the creditor community."

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

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

### **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,

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<sup>1</sup> 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).



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

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

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

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

Representativeness has also been interpreted to mean sufficient diversity of creditors and investors. Diversity in turn has caused concerns in some quarters that Creditor Committees are cumbersome to deal with, especially since different members of the creditor community may have divergent interests because they may have purchased credit default swaps or other protections, or because they may have acquired instruments on the secondary market and thus are not original holders.

In today's market, a Committee having a diversity of creditors and investors is likely to mean having banks, fund managers, hedge funds, and retail investors either represented and/or directly involved. However, debtors have objected that some types of creditors and investors who would need to have representativeness are not capable structurally of maintaining the needed confidentiality and obeying the applicable insider trading rules.

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

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

The other issue is that securities laws (in most jurisdictions) preclude trading on non-public material information, and a Committee is likely to come in contact with such information. This is a concern for

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

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

### **B. Cooperation and Trust**

1. In order for the negotiations to proceed in an orderly manner, an element of trust must be developed between the debtor and the members of the Committee, as well as among Committee members themselves.
2. The *Principles* call on the debtor and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors.
3. It is also important for there to be an open discussion concerning who should meet the reasonable costs, including legal and financial advisory fees, incurred by the Committee.
4. The parties should also discuss the issue of endorsement of the terms of a debt restructuring to be given at the end of the negotiation process. To the extent the Committee agrees with the terms of a debt restructuring it should seek to signal support for the proposal, to the extent possible. There

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

may be instances where unanimous support of the Committee cannot, despite good faith negotiations, be obtained. In such instances, it should be understood that the debtor should not feel precluded from bringing its restructuring proposal to the market nevertheless, especially if it believes there is significant support for it.

### **C. Diversity of the Creditor Community**

1. The Committee should consist of creditors and investors who can reflect the interests of the range of members of the creditor community affected in the negotiation process.
2. Diversity of Committee members should encompass not only financial instruments and investment strategies but also regional differences. The latter is particularly useful in order to consider differential tax treatments and regulatory differences that may help design options to facilitate the participation of the creditor community in different jurisdictions in the restructuring.
3. In order to facilitate participation by hedge funds and asset managers who may face conflicts of interest when they come into contact with material non-public information or other constraints (staffing, for example), consideration could be given to appointing an external representative. Such an individual should have appropriate restructuring experience (as described below) and operate under his terms of reference. This representative would be bound by confidentiality parameters (see below) and would provide only the necessary information that his clients need in order to make decisions regarding the restructuring negotiations.
4. The Committee should be of a manageable size, but Committee membership should not be limited only to "large" creditors and investors. At the same time, the Committee as a whole should at all times hold or represent a substantial amount of claims and should include a diverse set of creditors and investors (see "Diversity" above).
5. A Committee must have credibility with the debtor and be able to signal that it has influence with a critical mass of all creditors and investors although as a legal matter the Committee will not be able to bind holders of the debtor's debt securities in any event, acceptance or not of a proposal will be based on participation by such holders in an exchange offer and/or voting rights being exercised as part of a collective action mechanism, for example. To the extent, however, that the Committee would wish to discuss matters of internal ongoing administration following its establishment, the Committee should not need to act by unanimity in respect of any decisions to be taken.
6. The debtor and the Committee must be prepared to discuss the relative contribution, by way of debt relief or otherwise, of other creditors, such as bilateral and multilateral creditors: in the context of any debt sustainability analysis underpinning the restructuring discussions.

### **D. Speed of Process**

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.
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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 would be considered confidential.
  3. Under the code, parties would agree to refrain from disclosing confidential information to anyone other than a list of related parties (provided they also subject themselves to the code) unless required by law.
  4. Under the code, parties could issue periodic press releases that comply with applicable securities law to "share information with the market." Information would not be released that either "conditions the market" for an offering or that could be seen as deceptive.
  5. Legal advisors to parties should advise on what information can be released.
  6. Committee members should implement Chinese Walls or similar measures to ensure that those who make trading decisions are not in the possession of confidential information that is shared in the context of a restructuring negotiation.
  7. Negotiations should take place directly between the debtor and creditors, without the participation of multilateral or bilateral organizations, unless their participation or presence is requested by either the debtor or the creditors, and the other side agrees to such a request.
  8. Both debtor and creditors should avoid commenting on the negotiations, especially whilst these are ongoing, as this could undermine trust and also result in price sensitive information leaking into the capital markets and affecting the price of the debtor's securities.
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**F. Restructuring Experience**

1. The "tool kit" of at least some of the Committee members' experience should include practical skills in sovereign and/or non-sovereign restructurings.
2. Creditors and investors who are new to the asset class should not be excluded for lack of experience, in particular if their claims are substantial.
3. Committee members should consider the feasibility of particular restructuring proposals they aim to advance with the debtor.

**G. Legal Advisors**

1. The law firm representing the Committee should have ample debt restructuring experience.
2. If the firm has business relationships with Committee firms, in particular those with sizable shares of the outstanding debt, potential conflicts of interest should be addressed internally.

**H. Logistical Support**

1. Committee members should share responsibilities for providing facilities and staff to arrange meetings and for handling communications with the debtor as well as other members of the creditor community not on the Committee.
  2. The clearing systems should be leveraged as a communication tool particularly in cases in which a substantial amount of debt is held at the retail level.
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This report is published by the Institute of International Finance, Inc.  
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October 2017