PRINCIPLES
FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING IN
EMERGING MARKETS

TRANSPARENCY COOPERATION GOOD FAITH FAIR TREATMENT

"The *Principles* address significant remaining gaps in the architecture of global finance. In particular, they provide flexible guideposts for cooperative behavior of all parties concerned when restructuring debt in today's world of capital markets finance. I believe this represents an important milestone in the effort to build a system which promotes global cooperation, growth and financial stability."

Mr. Jean-Claude Trichet, President of the European Central Bank.

Private Capital Flows to Emerging Markets

Substantial amounts of private capital have flowed into emerging market economies in the last 15 years. Comparatively, net official flows to emerging markets have been more limited. In every year since 1990, the volume of net private flows has exceeded that from official sources (Chart 1). Nevertheless, it should be stressed that both bilateral and multilateral institutions have made essential contributions to the development process and promoted crucial economic reforms.

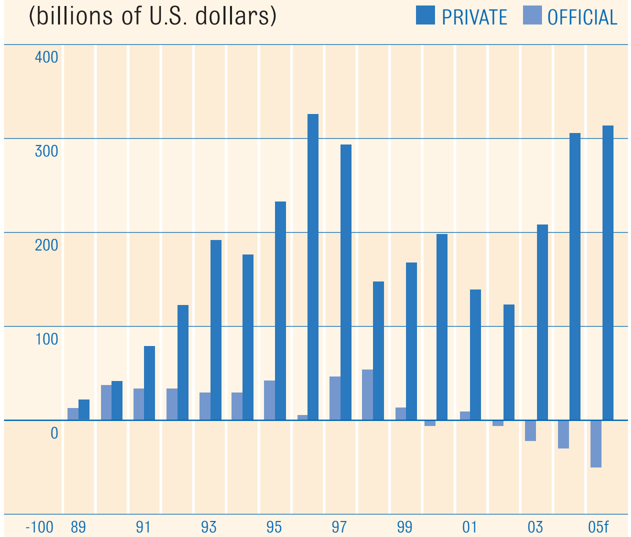
More than one-half of the private flows have been accounted for by direct investment from multinational corporations. An increasingly diverse range of institutional investors–including pension funds, mutual funds, insurance companies and hedge funds–are also building portfolios of emerging market debt and equity securities. Commercial banks have once again become net creditors to emerging markets (see Table 1). The capital from these diverse sources complement domestic savings in these economies and thereby contribute to employment, investment and growth.

During the last decade the flows of private capital have, however, been frequently interrupted, with periods of retrenchment by international investors and creditors that have generally reflected inconsistent economic performance.

CHART 1

Private and Official Flows

(billions of U.S. dollars)



Crises in emerging markets and in economies in transition — from Latin America to Asia to Europe — have taken a heavy economic toll. It has often been several years before countries returned to levels of employment and national income seen prior to crises, as has been evident over the last decade in Thailand, Indonesia, Ecuador and numerous others.

Securing steady and sustainable capital flows is an imperative.

Crises in Emerging Markets

Emerging markets' crises have been exacerbated by inadequate flows of information from debtors to creditors, insufficient dialogue between borrowers and lenders that preclude early solutions, and failures by policymakers to introduce measures that secure or restore investor confidence.

Margins for error are thin.

With a large part of emerging markets finance taking the form of liquid marketable instruments, policy mistakes and performance problems can quickly lead to widening of spreads, declines in local equity markets and a reversal of capital flows. The margins for error by policymakers have become thin.

Investor confidence eroded rapidly, for example, as evidence of flawed policies surfaced in Turkey in 2000/01, in Russia in 1998, in East Asia in 1997, and in Mexico in 1994/95. Further, as highlighted by some recent crises, a lack of political cohesion to secure expected reforms can trigger shifts in investor sentiment among both domestic and foreign investors.

Public authorities in numerous countries have learned from the experiences of the past and have established sound macroeconomic policies with compatible exchange rate regimes that have built investor confidence. These have been reinforced in many cases by structural reforms and economic liberalization which have attracted direct investment. Investors have also learned from past mistakes and have strengthened their risk management capabilities. They have also acknowledged the need to accept full responsibility for their decisions and not to expect official sector "bailouts."

Much has been done in recent years to minimize the potential for crises. The IMF led the way in developing a new set of standards for data transparency; the World Bank, the IMF and the Bank for International Settlements intensified their programs to strengthen financial systems and regulatory oversight in key emerging market economies. There have also been a variety of efforts to secure systemic improvements in the architecture of emerging markets

TABLE 1

Capital Flows to Emerging Markets

IIF Forecasts and data for recent years *(billions of dollars)*

	2002	2003	2004e	2005f
Private flows, net	120.4	207.6	303.4	310.7
Equity investment, net	118.8	125.1	176.7	184.9
Direct equity, net	117.7	92.7	138.3	148.2
Portfolio equity, net	1.1	32.5	38.5	36.7
Private creditors, net	1.6	82.5	126.7	125.9
Commercial banks, net	-3.9	30.6	54.2	46.2
Nonbanks, net	5.4	51.9	72.5	79.7
Official flows, net	-3.3	-21.0	-27.9	-50.4

e = estimate f = forecast Source: Institute of International Finance. March 31, 2005

"It is in all of our interest to put behind us the crises of the 1990s, by following prudent economic policies as well as ensuring stable capital flows to emerging markets. In this regard, the *Principles* offer new building blocks for crisis prevention and management."

Mr. Ali Babacan, Minister of State in Charge of Economy of Turkey.

finance. A significant initiative, which complements the new *Principles*, was the introduction in 2003 of Collective Action Clauses in emerging market bond contracts (see box below). The use of these clauses is gaining momentum and should be encouraged further.

The need for rules of the game.

Nevertheless, additional steps are needed to limit the frequency of crises and resolve those that do arise in an orderly and timely manner. In effect we need clearer rules of the game in place. The resolutions of past crises have often been ad hoc, protracted and complicated, involving unnecessary job losses, economic setbacks and reductions in the value of emerging market assets. Debtors and creditors have not been able to rely on a clear framework for crisis avoidance, crisis management, and debt restructuring.

It is time for a change—it is time for a more predictable framework.

Improving the System: Collective Action Clauses

Each new crisis in emerging markets over the last decade has stimulated debate about improving the system. An important innovation, which complements the new *Principles*, is the growing use of Collective Action Clauses (CACs) in bond contracts to facilitate debt restructurings. CACs have become valuable building blocks in the development of a better system of emerging markets finance.

While CACs have been standard in other markets, they were introduced in international emerging market bond contracts under New York law in March 2003 when Mexico issued a $1 billion bond. This was a critical first step to give operational meaning to the growing interest in such clauses. Since then there have been over 20 countries issuing NY law bonds with CACs totalling $70 billion.

The CACs provide, for example, for:

- Amending payment terms through supermajority action to address potential free rider problems.
- Instituting procedures for the formal establishment of creditor groups within and across debt instruments to facilitate negotiations on restructuring terms.
- Limiting precipitous legal action by requiring larger majorities than currently in practice in order for an event of default to trigger a broader default.
- Implementing new transparency provisions both for the reporting of data and for the proposed treatment of other creditor groups.

Strengthening the System: The New Principles

A stronger capital markets architecture.

A new approach has been developed to encourage sustainable private capital flows to emerging markets and strengthen the capacity of the system to avoid crises and cope more effectively with those that arise. Agreement has been reached on *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets*.

Agreement on the *Principles* followed over two years of intense dialogue to find an approach which both sovereign issuers and their creditors could support. This dialogue was sparked by earlier proposals from the IMF and others, in particular by a speech by Jean-Claude Trichet, then Governor of the Banque de France, in the fall of 2002 suggesting the potential of a voluntary Code of Conduct.

The *Principles* recognize the important role that private capital plays, while respecting the essential roles of the IMF, the multilateral development banks and regulators of banks. They open the door for an era of greater direct cooperation between sovereign issuers in emerging markets and their investors and creditors.

The *Principles* are a set of voluntary market-based guidelines for cooperative action in which borrowers and creditors alike recognize their mutual interest in pursuing dialogue and cooperative actions. The *Principles:*

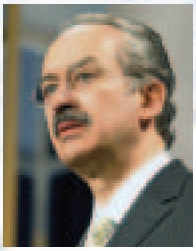
- Highlight key actions for crisis avoidance.
- Focus on crisis containment and management in ways that can be applied flexibly and on a case-by-case basis.
- Forthrightly underscore the need for good faith negotiations and fair treatment in situations when debt restructuring is necessary.

The *Principles* focus on four key areas:

1. **Transparency and Timely Flow of Information**
   General disclosure practice. Specific disclosure practice.
2. **Close Debtor-Creditor Dialogue and Cooperation to Avoid Restructuring**
   Regular dialogue. Best practices for investor relations. Policy action and feedback. Consultations. Creditors' support of debtor reform efforts.
3. **Good Faith Actions**
   Voluntary, good faith process. Sanctity of contracts. Vehicles for restructurings. Creditor committee policies and practices. Debtor and creditor actions during restructuring.
4. **Fair Treatment**
   Avoiding unfair discrimination among affected creditors. Fairness of voting.

"These *Principles* provide a framework for cooperative actions by debtors and creditors which should strengthen emerging markets finance and underpin flows to these markets. They can contribute significantly to avoiding crises and, when necessary, facilitate a timely, orderly restructuring of debt."

Mr. Francisco Gil Díaz, Minister of Finance & Public Credit of Mexico.



Agreeing Upon the *Principles*

"The *Principles* have been agreed upon following an unprecedented cooperative effort between sovereign authorities and leaders of private finance. Public officials in issuing countries such as Brazil, Mexico and Turkey have worked hard to forge essential guidelines and understandings. At the same time, the Institute of International Finance's Special Committee has played a crucial role in this process over several years together with the International Primary Market Association and other private sector institutions. The *Principles* were publicly released following a statement of support from the Group of 20, which strengthens the prospects of these guidelines becoming a cornerstone of the system of emerging markets finance."

Dr. Josef Ackermann, Chairman of the Institute of International Finance and Spokesman of the Board of Managing Directors and Chairman of the Group Executive Committee of Deutsche Bank AG.

The Group of 20

Following their meeting in Berlin on November 20-21, 2004, the Finance Ministers and Central Bank Governors of the Group of Twenty, under the chairmanship of German Finance Minister Hans Eichel, issued a communiqué, which included the following paragraph: *

"We reaffirmed the importance of an international financial architecture that sets incentives for pursuing sustainable policies and prudent risk-taking. In this regard, we welcomed the results achieved between issuing countries and private-sector participants on "*Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets.*" Such principles, which we generally support, provide a good basis for strengthening crisis prevention and enhancing predictability of crisis management now, and as they further develop in future."

Officials from the following members of the Group of 20 attended the meeting in Berlin:

Australia	Brazil	Canada	China	France	Germany
India	Indonesia	Italy	Japan	Korea	Mexico
Russia	Saudi-Arabia	South Africa	Turkey	U.K.	U.S.

the European Union (represented by the Council presidency and the President of the European Central Bank)

** The statement by the G-20 was followed by the formal release of the Principles at a press conference in Washington held by senior representatives of Brazil, Mexico, Turkey, the International Primary Market Association, and the Institute of International Finance.*

Transparency—Disclosing Essential Information

Opacity in the marketplace adds to risks and breeds uncertainty.

Although substantial progress has been made over the last decade to improve transparency, further efforts are key to underpinning risk management and bolstering confidence in the emerging market asset class. The *Principles* note, for example, that 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.

The *Principles* aim to assist the markets in making economic assessments, establish a common understanding of the country's balance of payments outlook, and enable informed and prudent risk management and investment decisions.

The *Principles* embrace specific disclosure elements. For example, in restructuring debt, they advocate that the debtor should disclose full details on the maturity and interest rate structures of all external financial sovereign obligations, key aspects of the assumptions underlying economic policies, as well as details of key agreements with such creditors as the IMF and the Paris Club.

Investor relations needs to play a central role.

To build relationships of confidence the *Principles* highlight the need for emerging market authorities to develop investor relations programs. Such programs can help authorities navigate through calm as well as turbulent periods of market sentiment. Investor relations programs are a cornerstone of "best practice" for crisis avoidance.

In addition to data provision, experience has shown that authorities that seek substantial and ongoing access to international capital markets should include in their investor relations programs regular meetings and/or teleconferences with analysts and investors. These briefings can serve to inform market participants and generate feedback on policies and performance.

"The *Principles* build on a number of best practices by both issuers and investors alike. In particular, the emphasis on transparency and strong investor relations is well placed and will benefit all parties. The *Principles* on debt restructuring capture key collaborative steps that investors and issuers can take to place a country back on the path of strong growth, balance of payments sustainability, and renewed market access."

Mr. Henrique de Campos Meirelles, Governor of the Central Bank of Brazil.

"Strengthening trust and confidence between sovereign issuers and investors and creditors is at the core of the new *Principles*. These are voluntary guidelines that will be implemented on a cooperative basis. Agreements on the importance of a constructive dialogue in crisis avoidance, in crisis management and in achieving a critical mass in a restructuring, are key elements in this initiative. As a result I believe that this new framework will strengthen the growing partnership between issuers and investors."

Mr. William R. Rhodes, First Vice Chairman of the IIF, co-Chairman of the IIF Special Committee on Crisis Prevention and Resolution in Emerging Markets, and Senior Vice Chairman of Citigroup and Chairman of Citicorp and Citibank, NA.

Close Debtor-Creditor Dialogue and Cooperation—Building Trust

Early dialogue with investors can be key to successful crisis avoidance—this is a prime reason why cooperation between issuers and creditors is the core of the Principles.

Crises have often been characterized by sharp breaks in confidence, financial volatility, and losses of market access. Numerous attempts in the past to build programs that investors could support have proven futile as we have seen otherwise strong policies developed in conjunction with unsustainable exchange rate regimes. Early consultation between the debtor and its key investors/creditors can assist policymakers in their identification of measures that restore confidence and avert a deepening crisis. Successful efforts at this stage can reduce significantly the number of cases requiring sovereign debt restructuring.

Approaches that encourage swift and candid exchanges of views between stakeholders at times of difficulties are central to the *Principles*.

Good Faith Actions—Central for Debt Restructuring

Debt restructurings may sometimes be unavoidable. When they are, it is critical that they are approached in a pragmatic and cooperative fashion in order to secure the restoration of confidence, market access and sustainable growth. The key ingredient in this process is good faith negotiations. This has long been recognized by the international community and is a core part of IMF policies as they relate to debt restructuring. They are also now a core part of the *Principles*.

The *Principles* include various specific restructuring approaches and procedures and in so doing they emphasize that restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced.

All parties have key mutual interests.

Experience has demonstrated that attempts to use involuntary mechanisms for involving the private sector in crisis workouts generally dampen the ability of market flows to rebound in the context of credible adjustment programs. The result is often a combination of unsustainable or weak economic recovery and increased recourse to official financing. All parties have a vested interest in avoiding this kind of outcome and, accordingly, in supporting the good faith approaches in the *Principles*.

The Principles provide guidance for the role of creditor committees.

The *Principles* offer important guidance to the negotiating process. While the modalities of the negotiation process can be flexible, the *Principles* emphasize the need for structured, early negotiations with a creditor committee when a default has occurred. They also note that a creditor committee should, for example, adopt 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; and generally act as a communication link between the debtor and the creditor community.

Fair Treatment—An Imperative for Cooperative Solutions

Mutual respect is fundamental to the new system as encouraged by the *Principles*. Unfair discrimination among affected creditors inevitably leads to restructuring complexities with unsatisfactory results for all stakeholders. Fair treatment, as articulated in the *Principles*, includes seeking rescheduling from all official bilateral creditors and not just the private sector.

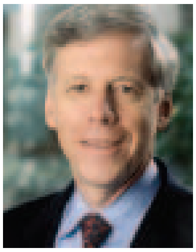
"This approach offers us an effective market-based set of standards that should fill the vacuum that exists in the system. It defines a practical alternative to statutory approaches to restructuring sovereign debt. We consider the provisions underscoring the sanctity of contracts and outlining the important role of creditor committees as especially valuable."

Mr. Robert B. Gray, Chairman, International Primary Market Association and Chairman, Debt Financing and Advisory, HSBC Bank, Plc.

A New and Evolving Approach

The *Principles* provide guidance to the players in emerging markets finance which can be applied on a flexible case-by-case basis. They are not cast in stone. It is expected that they will be reviewed from time to time by a group consisting of leading sovereign issuers and investors and adapted as necessary to changing conditions in the marketplace.

The economies of the emerging markets are becoming integrated increasingly in all aspects of the global economy and their stability and sustained growth is of vital interest. Pragmatic approaches that can secure consistent and robust flows of private capital to these markets support the public interest and are key to prudent investor and lender risk management.



"We expect that the *Principles* will evolve to ensure that they remain consistent with changing global realities. By doing so the *Principles* will make a continuing significant contribution to the robustness of the international financial system."

Mr. Charles Dallara, Managing Director of the IIF.

"The international finance system has been groping over the last decade for a more orderly, a more efficient, market based approach to the solution of debt problems. Now, for the first time in a great number of years, the issuing countries and the private sector have got together and have written a basic set of principles to govern the way we should approach these problems. That is a great achievement."

Mr. Jacques de Larosière, co-Chairman of the IIF Special Committee and Advisor to the Chairman of BNP Paribas Group.

Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets

PREFACE

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

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

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

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

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

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

The *Principles* build on the progress since the mid-1990s to identify effective measures in order to shore up crisis prevention and encourage their continued implementation. The *Principles* promote early crisis containment through information disclosure, debtor-creditor consultations, and course correction before problems become unmanageable. They also support creditor actions that can help to minimize market contagion. In cases where the debtor can no longer fulfill its payment obligations, the *Principles* outline a process for market-based restructuring based on negotiations between the borrowing country and its creditors that involve shared information, are conducted in good faith, and seek to achieve a fair outcome for all parties. Such a process maximizes the likelihood that market access will be restored as soon as possible under sustainable macroeconomic conditions.

PRINCIPLES

1. Transparency and Timely Flow of Information

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

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

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

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

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

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

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

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

3. Good Faith Actions

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

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

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

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

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

4. Fair treatment

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

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

This brochure is published by the Institute of International Finance, Inc.
1333 H Street, NW, Suite 800E, Washington, DC 20005-4770
Tel: 202-331-8183 http://www.iif.com
March 31, 2005