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 2014

TRANSPARENCY COOPERATION GOOD FAITH FAIR TREATMENT

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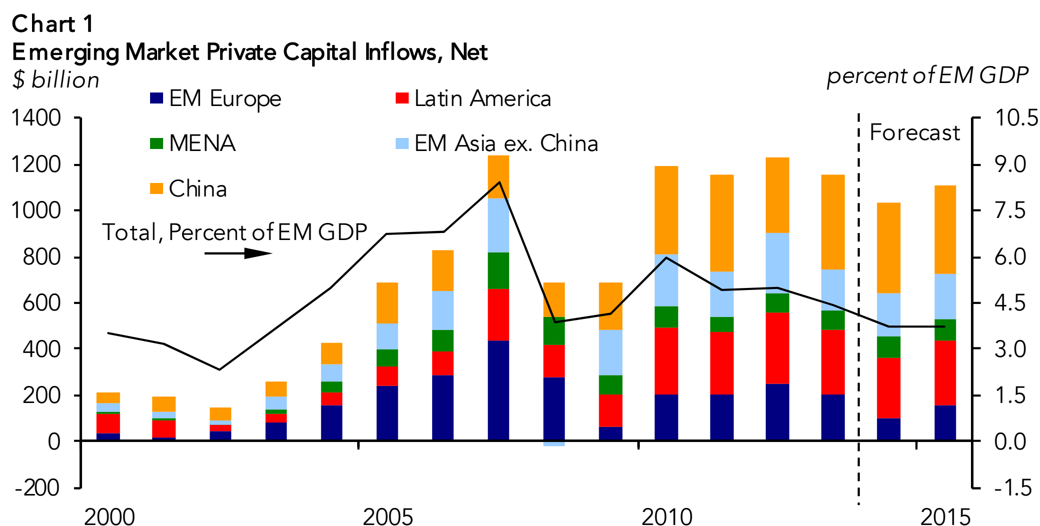
I. Overview

The global economic and financial environment over the past year has continued to be supportive of net private capital inflows to emerging markets and of sovereign bond markets in emerging market and developing economies. Following the temporary turbulence associated with the initial announcement in May 2013 of a pending tapering of quantitative easing by the U.S. Federal Reserve, the increase in interest rates in advanced countries was reversed and the upward trend in net private capital flows to emerging markets resumed. Capital flows were temporarily disrupted again in the first half of 2014 by developments in vulnerable emerging markets and geopolitical developments in Ukraine/Russia. However, the continued abundant global liquidity and the associated search for yield continued to sustain net capital flows to emerging markets.

According to the latest estimates by the Institute of International Finance (IIF), on an annual basis, the net private capital flows to the 30 major emerging markets monitored by the IIF are projected to ease from $1,156 billion in 2013 to $1,032 billion in 2014, before rebounding somewhat to $1,112 billion in 2015 (Chart 1). Relative to emerging market GDP, net private capital flows would continue to decline to 3.6% by 2015, down from 5% in 2012 and less than half their peak level in 2007. In contrast to the aggregate picture, regional trends are fairly differentiated in the size and direction of capital flows. Net flows to emerging Europe are projected to fall by 25% between 2013 and 2015 due to the Russia/Ukraine crisis and heightened political tensions in Turkey, while flows to Africa and Middle East are projected to grow 20% in the same period. Elsewhere, projections are either for modest drop in net inflows (emerging Asia) or for no significant change (Latin America).

In such a changing environment confronting sovereign debt markets, the *Principles for Stable Capital Flows and Fair Debt Restructuring* continued to serve as a very useful framework for both crisis prevention and resolution, guiding in particular sovereign debt restructurings from Greece to the Caribbean. The *Principles* constitute essentially a voluntary code of conduct between sovereign debt issuers and their private sector creditors that was agreed to in 2004 and endorsed by the G20 Ministerial Meeting in Berlin in November 2004 (see Annex I). Until October 2010, the *Principles* applied only to sovereign issuers in emerging markets, but their applicability has since been broadened to encompass all sovereign issuers (on a voluntary basis), as well as cases of debt

Chart 1
Emerging Market Private Capital Inflows, Net



Source: IIF.

restructurings by non-sovereign entities in which the state plays a major role in influencing the legal and other key parameters of debt restructurings.

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

The *Principles*, as a voluntary code of conduct, depend for their implementation on the good will of the debtors and creditors concerned, as well as market expectation of such behavior. The *Principles* have been monitored by two governing bodies—the *Group of Trustees* and the *Principles Consultative Group* (PCG).

The experience since the launching of the *Principles* in 2004 has demonstrated the benefits that result from an effective implementation of the *Principles* in helping safeguard access to private external financing at a time of exceptional stress in the global financial system (see Box 1). Countries with strong policy performance and active IRPs have clearly done well relative to others during the 2008-09 global financial crisis. The framework for the implementation of the *Principles* is summarized in Box 2.

Against the global policy setting outlined above, the discussions over the past year among the members of the PCG—which includes senior officials from developed and emerging-market countries, as well as senior bankers and investors--have continued to focus on the review of developments in international capital and sovereign debt markets and developments in evolving and past country cases of sovereign debt restructurings, as well as monitoring countries embarking on economic adjustment that could potentially entail public debt restructuring.

In view of the evolving trends in global financial and sovereign debt markets, the PCG discussions on broader issues have continued to be extensive over the past year. The discussions covered the impact of the evolving global financial market developments, major central bank policies, and investor risk preferences on private capital flows to emerging markets and sovereign debt issuance by emerging market and frontier market countries. In addition, the PCG continued to follow closely the debate on the most effective framework for sovereign debt restructuring and the potential changes to the prevailing contractual approach to further strengthen its effectiveness through more robust creditor engagement clauses. The PCG was kept informed of developments in the litigation by holdout creditors against Argentina before the U.S. courts and of the potential implications of these developments on Argentina itself and more broadly the sovereign debt restructuring process. Finally, as regards other countries cases, the PCG discussed the ongoing sovereign debt restructuring efforts by Grenada, followed up closely developments in past country cases where sovereign debt issues and bank restructuring remain relevant (Greece and Iceland), and country cases where debt restructuring issues could potentially arise.

Box 1. BENEFITS OF IMPLEMENTING THE *PRINCIPLES*

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

The *Principles* also yield substantial shared benefits for sovereign issuers and their creditors. By emphasizing crisis prevention, the *Principles* can offer significant benefits to sovereign borrowers by helping them reduce debtor country vulnerabilities to economic or financial crises, as well as the frequency and severity of crises 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 on the basis of market best practices and encouraging investors to provide feedback. IR practices help enable policymakers to make market-informed policy decisions; and
- Early corrective action through sound policy-making, stimulated in some cases by intensified IR or based on direct consultations between the debtor and its creditors.

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

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

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 49 current and former leaders in global finance with exceptional experience and credibility. The Group has four Co-Chairs. The current Co-Chairs of the Group are **Agustín Guillermo Carstens**, Governor of Banco de México; **Christian Noyer**, Governor of Banque de France; **Zhou Xiaochuan**, Governor of the People's Bank of China; and **Toshihiko Fukui**, former Governor of the Bank of Japan (see Annex III for the list of all members of the Group of Trustees). After six years of service, Toshihiko Fukui stepped down as a co-chair on October 12, 2014 and was succeeded by **Axel Weber**, Chairman of UBS AG and former President of the Bundesbank.

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*. For more details on the mandates of the *Group of Trustees* and of the PCG, see Chapter II of the *2013 PCG Implementation Report*.

The PCG has 31 members, including finance ministry and central bank officials 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.

International Monetary Fund (IMF) staff (from the Strategy, Policy, and Review Department and from the Monetary and Capital Markets Department) and a representative from the Federal Reserve Bank of New York have, for some time, joined PCG discussions as observers. Additional observers from the World Bank, the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD), the Bank of International Settlements (BIS), and the European Central Bank (ECB) also participate. The positive involvement of the representatives from international financial institutions provides further evidence of broad support for the *Principles*' implementation process.

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

II. PCG Discussions on Regional and Country Circumstances

a. Annual Meeting of the *Group of Trustees*

At their last annual meeting, on October 12, 2013, in Washington, D.C., on the occasion of the joint Annual Meetings of the IMF and the World Bank and the parallel Annual Membership Meeting of the IIF, the Trustees took note of the comprehensive 2013 Report on the Implementation of the *Principles* provided to them by the PCG and welcomed the continued effectiveness of the PCG in providing constructive feedback to a range of authorities and private creditors over the past 12 months on the implementation of the *Principles*, policy options and adjustment needs.

In particular, the Trustees noted with satisfaction that the voluntary, market-based, flexible guidelines for the behavior of sovereign debtors and private creditors underlying the *Principles* continued to serve as a very useful framework for both crisis prevention and resolution with a view to promoting and maintaining stable capital flows and supporting financial stability and sustainable growth. They pointed out that the *Principles* promote crisis prevention through the pursuit of strong policies, data and policy transparency, and open communication and dialogue with creditors and investors (particularly under investor relations programs), and effective crisis resolution through *inter alia* good-faith negotiations for a fair debt restructuring deal with representative groups of creditors.

The Trustees welcomed the review by the PCG of a number of recent country cases of sovereign debt restructuring in the Caribbean and elsewhere and its assessment of the lessons learned. The Trustees also noted the discussion by the PCG of the ongoing reflection and assessments in a number of fora of the modalities for sovereign debt restructuring and of possible refinements. In this context, the Trustees underscored the importance of the current contractual approach as embodied in the *Principles*. They also reaffirmed the central importance of good-faith negotiations with representative creditor committees in facilitating an early return to market access by debtors and the attainment of debt sustainability.

b. Overview of PCG Discussions

Over the past year, the PCG continued its normal practice of holding quarterly conference calls to review developments in international capital and sovereign debt markets and in evolving country cases of sovereign debt restructurings. Additionally, the PCG discussed a number of potential debt restructuring cases involving countries that are going through economic adjustment.

In view of the evolving trends in global financial and sovereign debt markets, the PCG discussions on broader issues continued to be wide-ranging. First, the discussions covered the impact of the ample global liquidity, changes in investor risk appetites, the evolving process for the tapering of quantitative easing and the prospective normalization of the U.S. monetary policy on private capital flows to emerging markets and sovereign debt issuance by emerging market and frontier market countries. These issued are covered in more detail in Chapter III.

Second, the PCG continued to follow closely the evolving debate on the most effective framework for sovereign debt restructuring and the potential changes to the prevailing contractual approach to further strengthen its effectiveness through more robust creditor engagement clauses. These issues are addressed in section c below.

Third, the PCG was kept informed of developments in the litigation by holdout creditors against Argentina before the U.S. courts, including the U.S. Supreme Court's decisions on petitions by

Argentina, as well as of potential implications of these developments on Argentina itself and more broadly the sovereign debt restructuring process (see section d below for more details).

Finally, as regards other countries cases, the PCG discussed the ongoing sovereign debt restructuring efforts by Grenada, followed up closely developments in past country cases where sovereign debt issues and bank restructuring remain relevant (Greece and Iceland), and country cases where debt restructuring issues could arise (Ukraine and Puerto Rico).

c. Evolving Framework for Sovereign Debt Restructuring

The PCG was kept informed of the evolving debate among officials, multilateral institutions, market participants, academics and commentators on the desirable changes to the framework for sovereign debt restructuring. The focus of this debate has been the lessons that could be drawn from recent experience (especially in the aftermath of the Greek debt exchange and the experience with Argentina) and the concrete ways the prevailing contractual, market based framework could be further strengthened. This debate took place in a number of forums, including the IMF, an informal group organized by the U.S. Treasury, the *IIF Special Committee for Financial Crisis Prevention and Resolution* (renamed since April 2014 as *IIF Committee on Sovereign Risk Management*), the Paris Club, the International Law Association, the Emerging Markets Trading Association (EMTA), and the International Capital Markets Association (ICMA), whose members include over 400 major banks, asset managers and investors, and sovereign debt issuers.

The IMF presented a new policy paper to its Board in June 2014 that highlighted some preliminary considerations for changes related to the treatment of sovereign debt issues in the IMF's lending framework under its exceptional access policy.[1] As indicated below, the proposed changes address many of the concerns raised by market participants and reinforce the emphasis on strengthening the contractual approach.

The new IMF paper moves away from the earlier suggestions for using non-negotiated top-down debt restructuring offers as a new norm in pre-default cases, and from a "presumption" of a bailing-in of private creditors in all new requests by IMF member countries for IMF financial assistance. Instead, the IMF staff now proposes a more limited bail-in of private creditors that would apply only in cases of exceptional access (200% of quota on an annual basis or 600% on a cumulative basis over a three year period). More specifically, in circumstances where a member country has lost market access and its public debt is considered sustainable, but not with a high probability, the IMF would make the provision of exceptional access conditional on a re-profiling of debt due to private creditors falling due during a specified short-term period. Such a re-profiling would take the form of an extension of maturities and/or a reduction in coupons with a modest decline in the net present value of the claims. Official creditors would be expected to maintain their exposure either through an extension of maturities or provision of new financing. In cases where public debt is deemed unsustainable, a debt restructuring entailing an upfront nominal debt reduction would be required, as is the current policy. The exception from such a restructuring in cases of a high risk for systemic spillovers is proposed to be eliminated. This approach reinforces the paramount importance of objective and well-balanced debt sustainability assessments by the IMF.

The proposed new framework is intended to respond to the IMF Executive Board's call for a pragmatic approach that strikes the right balance between flexibility and predictability. The re-profiling would be voluntary, market based, negotiated in a collaborative way between the sovereign debtors and its

[1] *The Fund's Lending Framework and Sovereign Debt—Preliminary Considerations.* IMF Staff Report, June 2014. (http://www.imf.org/external/np/pp/eng/2014/052214.pdf)

creditors, protecting the creditor-debtor contractual relationship and preserving sovereign debt as an important asset class. The IMF staff emphasizes that "take-it-or-leave-it" offers, where there is no meaningful consultation with creditors, should be avoided. Instead, to help attain high creditor participation, the IMF paper recognizes that creditors will only agree to a restructuring when they understand that it is in their interest to do so, based on adequate information on the nature of the debtor's problems and the elements of the Fund-supported program that is designed to address them. In this context, the IMF paper notes that *"it will be important that Fund staff, at the request of the member, be able to explain the analysis and judgments that underpin the conclusions of the [Debt Sustainability Analysis] DSA so that creditors are in a position to make informed decisions…The Fund recognizes that, in order to achieve a high participation rate—which is critical for the success of the re-profiling and the program—a debtor would be wise to engage with a creditor committee when the composition of the committee is sufficiently broad to enable it to effectively represent the creditor body."* At the IMF Executive Board discussion of this paper, Directors agreed to postpone consideration of these proposals until the IMF staff reported also in the months ahead on issues related to the strengthening of creditor collective action clauses and the role of official creditors.

In parallel, intensified discussions have taken place over the past year among IMF senior staff, selected official sector representatives and market participants, the ICMA and IIF senior staff on model aggregated collective action clauses (CACs). These provisions can complement the existing CACs for individual series sovereign bonds and thus strengthen the effectiveness of the prevailing contractual approach to sovereign debt restructuring in requiring high creditor participation in debt restructurings whilst reducing materially the potential incidence of holdout creditors disrupting a restructuring. The discussions culminated in an agreed framework, released publicly on August 29, 2014, which can be used by sovereign debtors in future new bond issuance.

The model aggregated CACs allow the sovereign debtor to use either single-limb or a two-limb aggregated CACs in relation to bond issues which include CACs (as well as the traditional series by series approach) to secure creditor agreement to modify fundamental provisions of the original bond contracts so as to achieve a desired debt restructuring. Consistent with the need to respect creditor property rights, ICMA recommends for one-limb aggregated CACs a high threshold of at least 75% of the total outstanding nominal value of all bonds covered by aggregated CACs. For two-limb aggregated CACs, ICMA recommends, fully in line with the new uniform practice since early 2013 for new bond issues by all Euro Area member countries, a threshold of at least 66 2/3% for aggregated bonds, as well as a threshold more than 50% for each individual bond series. Under both options, if these thresholds are met, all aggregated bondholders, including those that did not vote in favor of the offer, will be obligated to accept the debt restructuring offer. To facilitate this process, the model aggregated CACs include an information clause that calls for the provision of adequate information to creditors on the circumstances faced by the debtor, its future economic plans and macroeconomic outlook, and a description of any IMF agreements and of the proposed treatment of all other creditor groups, as well as details as to any proposed aggregation.

In addition, ICMA also proposed, on August 29, 2014, model provisions for the formation of bondholders' committees that can engage in good-faith negotiations with sovereign debtors on the terms of any debt restructuring. Such committees can be established by holders of at least 25% of the outstanding principal amount of affected bonds in case of an announced intention by the issuer to seek debt restructuring, an event of default or other specified event. Sovereign debtors adopting this model language agree to engage in good-faith discussions with the bondholders' committee, or a steering committee of representatives of bondholders' committees if more than one committee is formed, and to provide adequate information to creditors similar to that under the model aggregated CACs. The debtor is also expected to pay any reasonable fees and expenses of any such committee, including the expenses for legal and financial advisors.

ICMA also issued a new model *pari passu* clause that excludes any right to ratable payment by creditors but preserves the equal ranking among all external unsecured obligations issued by a sovereign debtor.

In evaluating these developments, the PCG welcomed the emerging consensus that the prevailing contractual approach to sovereign debt restructuring is the preferred framework. The PCG also took note of the recommendations put forward to strengthen collective action clauses; encourage the formation of creditor committees and the engagement by sovereign debtors with these committees in reaching debt restructuring agreements; and a model *pari passu* clause with an explicit indication of its coverage. The PCG considered that all these developments are fully consistent with the *Principles*, which remain the embodiment of the contractual approach and offer the best practices for an equitable and efficient sovereign debt restructuring. The PCG will continue to monitor the coverage and implementation of aggregated CACs and the *pari passu* clauses in sovereign bond issuance and debt restructurings.

Box 3. ARGENTINA – END OF LITIGATION PROCESS AND NEW CHALLENGES

On May 29, 2014, Argentina took a major step to normalize relations with its official bilateral creditors by reaching an agreement with Paris Club creditors to clear defaulted bilateral loan obligations amounting to $9.7 billion (principal plus accrued interest) based on a flexible clearance structure within a 5-year period, with minimum payments of $1.15 billion to be paid by May 2015, and the following payment due in May 2016. A press release issued by Argentina's Economy and Finance Ministry states that $650 million will be paid in July 2014 and $500 million will be paid in May 2015. Neither side has offered details regarding the exact size or composition of the future payments. Argentina's statement says that they agreed to minimum annual payments. However, Argentina could make larger payments if Paris Club countries invest more in Argentina, while the payment period could be extended by two years if investment is less than expected. Additionally, the interest rate that Argentina pays on its remaining debt will fall to 3% from 7% previously. It could rise by around 1% if the payment period exceeds five years. The IMF was not involved in the discussions and settlement.

The prolonged litigation against Argentina before the U.S. courts brought about by two holdout creditors came to an end in mid-June 2014 with the U.S. Supreme Court's decisions against Argentina and the lifting of the stay on the implementation of the lower court's "ratable" payments decision. More specifically:

- The U.S. Supreme Court decided on June 16 not to consider Argentina's petition for a *writ of certiorari* to review a decision by the Second Circuit Court of Appeals requiring payment of all overdue payments due to the holdout creditors (amounting to about $1.5 billion) at the same time that debt service payments are made to the holders of Argentine sovereign bonds exchanged in 2005 and 2010 (93% of the total).

- On the same day, the Supreme Court also ruled against another petition by Argentina and upheld another Second Circuit Court decision allowing holdout creditors to seek discovery of Argentine assets globally.

Box 3. ARGENTINA – END OF LITIGATION PROCESS AND NEW CHALLENGES (continued)

- On June 18, the U.S. Second Circuit Court of Appeals lifted its stay of execution of its "ratable" payments decision thus requiring the payment by Argentina of $1.5 billion to the holdout creditors by June 30, when the next coupon payment to the holders of discount exchange bonds was due. Coupon payments to the par exchanged bonds were due at end-September 2014.

In response to these developments, on June 26 Argentina deposited the $539 million interest payment due on June 30 to the exchange bondholders with the Bank of New York Mellon (BNYM), the Trustee for the restructured bonds. However, the district court's injunction against third parties prohibits the transfer of the June 30 coupon payment to the restructured bondholders until Argentina makes a full payment to the holdout creditors.

Argentina also agreed to engage in negotiations through a court-appointed mediator and, in the end, direct discussions with the holdout creditors on a possible mutually acceptable deal before the expiration of the 30-day grace period on July 30. However, on July 30, after the grace period expired with no deal between Argentina and the holdout creditors, major rating agencies placed Argentina on selective default. Nonetheless, Argentina has argued that it is not in default as it had deposited the coupon payment due with the Trustee, a claim that was not accepted by the U.S. court. One of the factors that is reported to have made it difficult for Argentina to reach a deal is the Rights Upon Future Offers (RUFO) clause in the exchange bonds that limits Argentina's ability to offer better terms to the holdouts than those enjoyed by the holders of the exchanged bonds. The RUFO clause expires by end-December 2014. Nonetheless, Argentina made the $642 million July payment to the Paris Club creditors.

On August 1, the International Swaps & Derivatives Association's determinations committee ruled that a "*failure to pay credit event*" had occurred, triggering an estimated US$ 1 billion in CDS contracts on Argentine bonds. This is the first such trigger case since Greece debt restructuring in 2012.

On August 19, Argentina announced its intention to submit legislation to parliament authorizing the government to offer a voluntary swap of foreign law bonds for local law securities payable in Argentina. In September, the law was approved by both Argentine Senate and Congress and signed into law by the President. It allows exchange bondholders to receive bonds with identical terms, conditions and nominal value as existing securities, except for the change in jurisdiction. The legislation allows the switch in payment agent for the exchange bonds from BNYM to a fiduciary agent domiciled in Buenos Aires. The bill also permits holdout creditors to exchange unrestructured bonds for new local law instruments. According to the bond contracts, to be effective, such a change in trustees and the governing law requires approval by exchange bondholders holding at least 75% of the nominal value of outstanding exchange bonds, but would not be consistent with the U.S. court's decisions. U.S. District Court Judge Thomas Griesa had previously stated that Argentina's proposal to alter the payment mechanism for the exchange bonds was illegal, though he chose not to hold Argentina in contempt of court. According to Judge Griesa, "any entity" that assists Argentina in avoiding the court orders would also be in violation.

On September 26, U.S. Second District Court Judge Thomas Griesa held a hearing on Citibank's request for authorization to make the September 30 payment to creditors holding U.S. dollar-denominated domestic law restructured bonds. A similar request was granted on an exceptional

Box 3. ARGENTINA – END OF LITIGATION PROCESS AND NEW CHALLENGES (continued)

basis for the June 30 payment. Judge Griesa ruled that Citibank could make the September 30 payment, allowing both the bank and holdout creditors to submit additional evidence to help him decide if he will allow future payments on local law bonds. The next payment on dollar-denominated local law bonds is due on December 31.

Overall, the end of the litigation process before the U.S. courts has opened up new challenges as the holdout creditors have not received any payments, payments to the exchange bondholders have been suspended, and Argentina continues to be unable to access international capital markets.

d. Argentina

Over the past year, the PCG was kept informed of the evolving relations between Argentina and its private and official creditors. Two pivotal events have occurred related to the clearing of arrears to Paris Club creditors and the ending of the litigation against Argentina by holdout creditors before the U.S. courts (see Box 3 for more details). The latter developments have ushered in new challenges and difficulties for Argentina. Events are still unfolding and it's difficult to predict how and when the current situation will be eventually resolved.

On June 16, 2014 the U.S. Supreme Court decided not to consider Argentina's petition for a *writ of certiorari*, leaving in place the Second Circuit Court of Appeals decision to uphold a lower court's ruling requiring payments to Argentina's holdout creditors at the same time payments are made to exchange bondholders ("ratable" payments), based on its interpretation of the *pari passu* clause embedded in the original bonds. This led to the lifting of the stay against the implementation of "ratable" payments, with effect from June 30, when the coupon payments to the holders of discount bonds were due and the initiations of debt restructuring negotiations with the holdout creditors. As these negotiations failed to reach a deal by July 30, the expiration of the grace period for the coupon payments, Standard & Poor's and Fitch Ratings placed Argentina on selective default.

The selective default is not expected to have any contagion effects on other emerging markets but to have a negative, but initially modest, economic impact on the Argentine economy, aggravating the existing recession, putting further upward pressure on inflation (already approaching 40% in annual terms) and exacerbating the downward pressures on official reserves. This impact would be more severe the longer the duration of the selective default, as the borrowing costs for state institutions and the private sector increase, inflation rises, and confidence in the economy weakens further.

Overall, there is some uncertainty at present on how the current stalemate would be resolved, given the public positions taken by Argentina and the perceived limits placed by the Rights Upon Future Offers (RUFO) clause on Argentina's ability to offer better terms to the holdouts than those enjoyed by the holders of the exchanged bonds. Argentina's situation presents new challenges as no mutually acceptable deal has been reached with the holdout creditors, effective payments to the exchange bondholders have been suspended, and Argentina continues to be unable to access international capital markets while its economy is deteriorating.

In reviewing these developments, the PCG noted that, even at this late stage, good-faith negotiations between Argentina and its holdout and other creditors offers the best way forward for reaching a mutually acceptable solution. The experience with Argentina's debt restructuring has demonstrated the

usefulness of the *Principles* and, in particular, the importance of open dialogue, good-faith negotiations and fair treatment of all creditors.

In addition, the PCG took note of the various views expressed by commentators and analysts on the potential implications of the Argentina case for future sovereign debt restructurings. Some observers have argued that Argentina's experience would empower future holdout creditors at the expense of sovereign debtors and that it would weaken the incentives for creditors to participate in future debt restructurings. Other commentators, however, have argued that the Second Circuit's interpretation of *pari passu* was narrow and case specific, and in the court's words, reflective of Argentina's "*uniquely recalcitrant*" behavior during the 2001 default and the subsequent debt exchanges in 2005 and 2010 and therefore it cannot be generalized outside of that context. Additionally, holdout strategy entails an expensive, uncertain and time-consuming litigation process, as well as high tolerance for risk, especially in view of the inherent difficulties, even in case of a favorable court decision, of enforcing court judgments against a sovereign enjoying sovereign immunities. More importantly, many innovations in contractual instruments over the last decade, such as CACs and more recently aggregated CACs, lower the bargaining power of holdout creditors and their ability to block a deal supported by a large majority of creditors.

e. International Capital Markets and Emerging Markets Roundtable

The 2014 Annual Roundtable was held on April 13, 2014, organized under the auspices of the four Co-Chairs of the *Group of Trustees*. It was attended by 250 senior public officials from both mature and emerging market economies, leaders from the private financial sector, and representatives from international financial institutions. The Roundtable included two panel discussions on key policy issues of special relevance to the sovereign debt crisis prevention aspects of the *Principles*, and a keynote address by Tharman Shanmugaratnam, Deputy Prime Minister and Minister of Finance of Singapore and Chairman of the International Monetary and Financial Committee of the IMF, on the current global financial challenges facing emerging market economies. The first panel discussion addressed the near and longer term outlook for capital flows to emerging markets and the policy requirements for ensuring stable capital flows and resilience to shocks. The second panel focused on broad issues related to the likely nature and actors of future debt crises, potential contagion risks and the optimal debt restructuring framework. As in earlier years, the discussion among Roundtable participants was lively and insightful, and was highly appreciated by all participants, confirming the perception of the Roundtable as a major forum for informal annual discussions among public and private decision makers.

III. Investor Relations and Data Dissemination

Since the launching 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 programs (IRPs) 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 facilitating, in case of need, crisis 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, the emerging markets would face pressures in attracting private capital inflows. Enhancing IR and data dissemination practices would play an important role in directing 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 shape 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 to build trust and long-term relationships with their investors during periods of calm financial markets, IRPs have proven to be helpful instruments for authorities to navigate turbulent periods of market sentiment, as the experience with the 2008-09 global financial crisis and the subsequent period of market volatility has demonstrated. As such, they are key elements of the *Principles.*

Table 1
Active Investor Relations Programs

Country	IR Program Launching Year	Location
Mexico	1995	Ministry of Finance and Public Credit
Brazil	April 1999 2001	Banco Central do Brasil The National Treasury
The Philippines	July 2001	Bangko Sentral ng Pilippinas
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

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 of 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. These programs involve as a characteristic feature the establishment of specialized units with expert and identifiable staff and dedicated official websites that facilitate communication and interaction with investors. The number of countries with IRPs has increased from five in 2004 to 15 by 2012 out of the 39 countries monitored by the IIF, but has declined since 2013 to 14 as Korea has discontinued its official IR website while 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 over time from 30 major issuers at the inception of IIF assessments in 2005 to 38 by 2008 and to 39 by 2014, as Ecuador has regained market access.

The usefulness of effective IR practices and data dissemination is not limited only to emerging market and developing economies. They can be equally useful to all sovereign debt issuers. In practice, however, very few advanced countries have formal IRPs as data and policy transparency is achieved through the regular open communication and dialogue between the authorities of these countries and their investors, who tend to be predominantly domestic financial institutions, institutional investors and large asset managers. But with the increasing global financial integration in recent years, the diversification of investment portfolios across countries and asset classes, and the expanding role of sovereign wealth funds, the share of advanced countries' sovereign bonds (and other financial assets for that matter) held by foreign investors has been on the rise. Foreign investors are also expanding their exposure to emerging and frontier markets and to new issuers among developing countries.

a. IIF Assessments of IR and Data Dissemination Practices

The IIF's deep involvement with investor relations and data dissemination 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 2 and 3. Each country is assigned a weighted score based on the number of criteria it meets and the weights of each of these criteria ranging from 0 to 3. Partial credit is not awarded; scores are fulfilled in a binary fashion, wherein evidence of satisfaction of the criterion guarantees full credit, while no evidence results in a zero [0] score. A detailed description of the evaluation criteria is provided in Appendix A, 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, eight 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 Standard (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, six 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 of time series data on central government debt and its amortization schedule.

The IIF reviews periodically with market participants the relative importance of countries' investor relations and data dissemination practices in their investment decisions. The 2013 evaluations benefited

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 Institu-tionalized 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	7	0	0	3	0	0	0	1	0	0
Brazil*	41	2	3	3	1	1	3	3	2	2
Brazil (Gerin)	41	2	3	3	1	1	3	3	2	2
Brazil (Treasury)	41	2	3	3	1	1	3	3	2	2
Bulgaria	23	0	0	3	1	0	3	3	2	2
Chile	41	2	3	3	1	1	3	3	2	2
China	10	0	0	3	0	0	0	0	2	0
Colombia	35	2	3	3	1	1	3	2	0	2
Costa Rica	16	0	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	15	0	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	35	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	28	2	0	3	1	0	3	2	2	2
Lebanon	27	0	0	3	1	1	0	2	2	2
Malaysia	19	0	0	3	1	0	3	2	2	2
Mexico	42	2	3	3	1	1	3	3	2	2
Morocco	23	2	3	3	1	1	3	1	2	0
Nigeria	11	0	0	3	0	0	0	0	0	0
Pakistan	21	0	0	3	1	1	0	2	2	2
Panama	32	2	3	1	1	1	0	2	2	0
Peru	41	2	3	3	1	1	3	3	2	2
Philippines	38	2	3	3	1	1	3	2	0	2
Poland	38	2	3	3	1	1	3	3	2	2
Romania	20	0	0	3	0	0	3	1	0	2
Russia	26	0	0	3	1	1	3	3	2	2
South Africa	41	2	3	3	1	1	3	3	2	2
Tanzania	4	0	0	3	0	0	0	0	0	0
Thailand	23	0	0	3	1	1	3	2	0	2
Tunisia	8	0	0	0	0	0	3	2	0	0
Turkey	42	2	3	3	1	1	3	3	2	2
Ukraine	10	0	0	0	0	0	3	1	0	0
Uruguay	42	2	3	3	1	1	3	3	2	2
Venezuela	6	0	0	0	1	1	0	2	0	0
Vietnam	6	0	0	0	0	0	0	0	0	0
Zambia	4	0	0	3	0	0	0	0	0	0

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

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 Communi-cation with Investors	Bilateral Meetings with Investors	Non-Deal Roadshow(s)	Investor Conference Call(s)	Archives of Investor Presentations and Conference Call Materials Available on Website(s)	Investor Feedback Reflected in Policy Decisions, Per Country	Senior Policymakers Accessible to Investors	Regular Self-Assessment of Investor Relations Activities	
3	2	3	2	1	1	1	3	3	2	1	
											Country
0	2	0	0	1	0	0	0	0	0	0	Belize
3	2	3	2	1	1	0	3	3	2	1	Brazil*
3	2	3	2	1	1	0	3	3	2	1	Brazil (Gerin)
3	2	3	2	1	1	0	3	3	2	1	Brazil (Treasury)
3	2	0	0	1	0	0	0	3	0	0	Bulgaria
3	2	3	2	1	1	0	3	3	2	1	Chile
0	2	0	2	1	0	0	0	0	0	0	China
3	2	0	2	1	1	0	3	3	2	1	Colombia
0	0	0	0	1	0	0	0	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
0	2	0	0	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	3	0	1	1	0	0	3	2	1	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	0	0	1	1	0	0	3	2	1	Korea, South
3	2	3	0	1	1	0	0	3	2	1	Lebanon
0	0	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	1	0	0	0	0	Morocco
3	2	0	2	1	0	0	0	0	0	0	Nigeria
1	2	0	0	1	1	0	0	3	2	0	Pakistan
1	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	0	3	3	2	1	Philippines
3	2	3	2	1	1	0	0	3	2	1	Poland
3	2	0	0	1	0	0	0	3	2	0	Romania
3	0	0	0	1	1	0	3	0	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	0	Thailand
0	2	0	0	1	0	0	0	0	0	0	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	1	3	3	2	1	Uruguay
0	0	0	2	0	0	0	0	0	0	0	Venezuela
0	2	0	0	1	0	0	0	3	0	0	Vietnam
0	0	0	0	1	0	0	0	0	0	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 Timeli-ness	Time Series Availability	Domestic and External Financing Availability	MGFS 1986 (Cash Accounting)	GFSM 2001 or Transition Towards GFSM 2001 (Accrual Accounting)	CGD Timeli-ness	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	16	1	1	0	3	0	0	0	0	1	3	1
Brazil	41	2	1	2	3	1	1	0	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	8	1	1	2	0	0	0	3	0	0	0	1
Colombia	34	2	1	2	3	1	1	0	2	1	3	1
Costa Rica	26	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	33	2	1	2	3	1	1	0	2	1	3	1
Egypt	37	2	0	2	3	1	1	3	2	1	3	1
Gabon	16	1	1	0	0	1	0	0	2	1	0	1
Ghana	12	1	1	0	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	31	2	1	2	3	1	1	0	2	1	3	1
Lebanon	26	1	1	2	3	1	1	0	2	1	3	1
Malaysia	26	2	1	2	3	1	1	0	2	1	3	1
Mexico	39	2	1	2	3	1	1	0	2	1	3	1
Morocco	38	2	1	2	3	1	1	0	2	1	3	1
Nigeria	16	1	1	2	0	1	1	0	2	1	0	0
Pakistan	30	1	1	0	3	1	1	3	2	1	3	1
Panama	28	1	1	1	3	1	1	0	2	1	3	1
Peru	40	2	1	2	3	1	1	3	2	1	3	1
Philippines	30	2	1	2	3	1	0	0	2	1	0	1
Poland	39	2	1	2	3	1	1	3	2	1	3	1
Romania	35	2	1	2	3	1	1	0	2	1	3	1
Russia	37	2	1	0	3	1	1	3	2	1	3	1
South Africa	41	2	1	2	0	1	1	3	2	1	3	1
Tanzania	19	1	1	2	3	1	1	0	2	1	3	1
Thailand	35	2	1	2	3	1	0	3	2	1	3	1
Tunisia	30	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	27	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	2	0	1	1	0	0	1	0	1

* 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 GDP:
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****								
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
2	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	0	0	0	0	0	0	0	0	China
2	1	3	0	2	1	3	1	2	2	0	0	Colombia
2	1	0	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	2	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	0	0	Lebanon
2	1	0	0	2	1	3	0	0	0	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	1	3	0	2	1	0	0	0	0	0	0	Nigeria
2	1	0	0	2	1	3	0	2	2	0	0	Pakistan
0	1	3	0	2	1	3	0	0	0	3	0	Panama
0	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	0	0	2	1	3	0	2	2	3	2	Romania
0	1	3	0	2	1	3	0	2	2	3	2	Russia
2	1	3	2	2	1	3	1	2	2	3	2	South Africa
0	0	0	0	2	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	2	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	0	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:
It is important that data cover both public and private sector debt.

Preferably, amortization payments presented at least annually for a period of at least five years from the effective date of the debt data.
Annual data should be supplemented with quarterly data at least for the year immediately ahead.
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly

from the feedback of selected members of the *IIF Council on Asset and Investment Management (CAIM) Working Group*. The investors' feedback confirmed that the relative importance of the criteria used in broad terms and suggested stronger relative weighting in the overall index for IR practices and data transparency of subscription to the IMF's SDDS and the archiving on the official websites of investor presentations in conference calls or road shows made by the authorities. Similarly, the feedback suggested a higher weight in the overall index on data dissemination practices on the availability of data on the holdings by non-residents of public and private debt issued domestically. The 2014 evaluations incorporate these suggestions and the weights of the first two criteria have been raised from 1 to 3 and the weight of the other two from 1 to 2. In this sense, the 2014 evaluation results may not be fully comparable to previous evaluations, but the results highlighted in the next section do not indicate any deviation in the overall rankings from those in previous years. The 2014 evaluations have also benefitted from comments from select investors.

The results of the IIF's annual evaluation of IR and data dissemination practices of key emerging market sovereign issuers are published annually on the IIF website. They have also been referenced in the World Bank/IMF Revised Guidelines for Public Debt Management released in April 2014 and in the OECD Working Paper *"Investor Relations and Communications: An Overview of Leading Practices in the OECD Area,"* published in July 2012, consolidating the IIF best practices as the benchmark for sovereign investor relations programs.

b. IIF 2014 Assessment Results

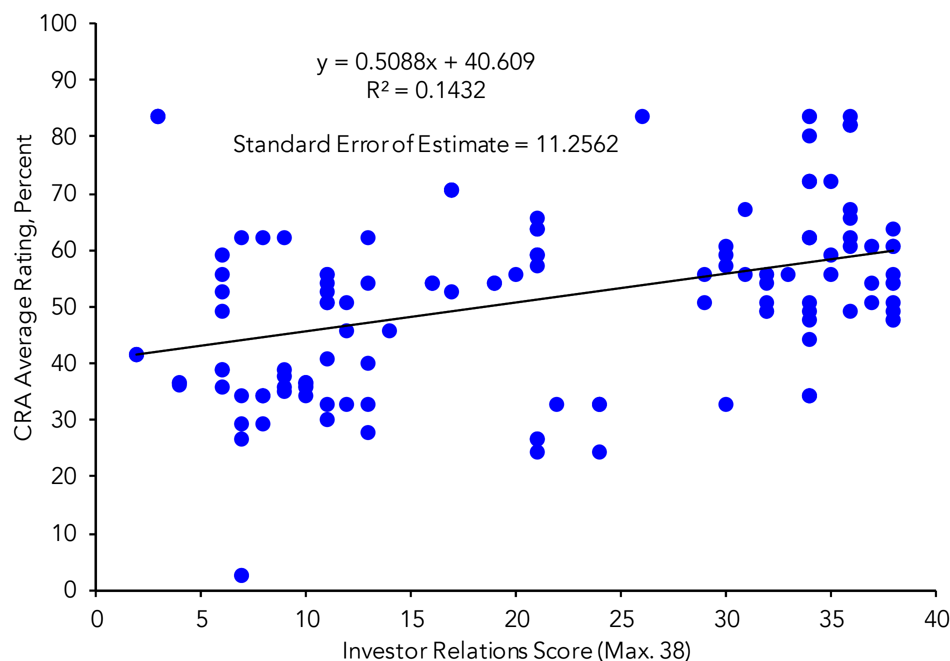
The 2014 IIF assessment covers the IR and data dissemination practices of 39 emerging market (EM) economies that are most active in international debt capital markets. The full scoring of each country covered in the IIF IR and data dissemination indices is shown in Tables 2 and 3.

The IR and data transparency rankings in 2014 indicate welcome improvements in the scores of several emerging markets relative to 2013. The most noteworthy improvements relate to Mexico and the Russian Federation. Mexico increased its ranking to the maximum score of 42 (the maximum score was 38 in 2013) as a result of progress in the criteria related to reciprocal links on relevant websites, the publication of investor presentations and material for non-deal roadshows, and streamlining the availability of legal and regulatory information relevant to non-resident investors. The Russian Federation, for its part, increased its ranking to 26 as a result of progress in the criteria related to the presentation of macroeconomic data in a market-friendly format, the availability of historical and forward-looking policy information, the holding of non-deal roadshows, and the availability of archived presentations to investors. Other notable improvements include Turkey and Uruguay for fulfilling the criteria related to investor conference calls; Costa Rica for progress in the criteria related to investor relations staff identifiable and reachable through websites and reciprocal links to Central Bank, Ministry

Table 4
Average IR and CRA Ratings, 2010-13

	2010		2013		Change *(2010-2013)*	
IR Countries	**IR Average Score** *(Out of 38)*	**Average CRA Rating** *(Out of 100)*	**IR Average Score** *(Out of 38)*	**Average CRA Rating** *(Out of 100)*	**IR Average Score** *(Out of 38)*	**Average CRA Rating** *(Out of 100)*
Group A *(IR Score of 26-38)*	33.8	58.4	34.3	59.7	0.5	1.3
Group B *(IR Score of 13-25)*	18.8	51.2	18.0	49.9	-0.8	-1.3
Group C *(IR Score of 0-12)*	8.2	45.4	7.2	40.6	-1.0	-4.8

Chart 2
IR Score vs. CRA Average Rating
Panel Data: 2010-2013



Source: S&P, Fitch Ratings, Moody's, TradingEconomics.com, IIF.

of Finance, and other government agency websites; Colombia for enhancing the availability of investor presentations and conference calls on the website of the Ministry of Finance; Morocco for revamping the website of the Ministry of Finance and thus meeting the criterion related to reciprocal links on relevant websites.

Overall, the 2014 rankings of IR and data transparency practices indicate that 13 out of the 39 countries attained fairly high scores in the top quartile (33-42), while 13 low-income or frontier countries had scores in the lowest quartile (0-11). Indonesia, Mexico, Turkey and Uruguay have reached or remain at the top tier with a maximum score of 42. They were followed by Brazil, Chile, Poland, the Philippines and South Africa in second place (with scores of 38-41 out of 42), and by a third group of countries that comprised Colombia, the Dominican Republic, and Hungary (35-36 out of 42).

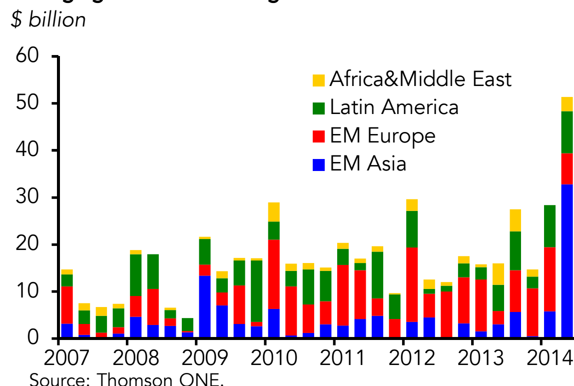
The 2014 data dissemination rankings remained broadly unchanged relative to 2013, with 18 countries in the top quartile (34-44) and only 2 countries in the lowest quartile (0-11). Overall, Turkey continued to be the top performer with the highest score of 44, followed by a broad range of countries in the second tier (Brazil, Chile, the Dominican Republic, Indonesia, South Africa and Uruguay) with scores ranging from 41 to 42. The third tier of top performers (with scores from 37-40) includes Bulgaria, Croatia, Egypt, Hungary, Mexico, Morocco, Peru, Poland and Russia. All these countries continue to set preeminent examples in data dissemination practices in their respective regions.

c. IIF IR Rankings and Sovereign Ratings

Effective IR and data dissemination practices are an essential communications tool for public debt management and a very desirable complement to sovereign issuers' economic policies. With given economic policies, advances in IR practices can facilitate access to capital markets and contribute to attaining a higher-than-otherwise sovereign investment rating through enhanced data and policy transparency and dialogue with investors, though such a direct causation may be statistically weak. A stronger positive association or correlation between IIF IR rankings and sovereign rating rankings by major credit rating agencies can be expected to the extent that IR rankings can be a good proxy of emerging market countries with more advanced economies, more appropriate economic policies and stronger institutional arrangements. It is recognized, of course, that there are several factors that influence sovereign credit ratings, including country-specific economic conditions, past debt history, institutional quality, the rule of law and political and financial stability. However, it can be expected that enlightened and proactive emerging market policymakers who implement and strengthen their investor relations programs, data dissemination, and debt management practices would also undertake other advantageous policies that would positively affect their credit ratings.

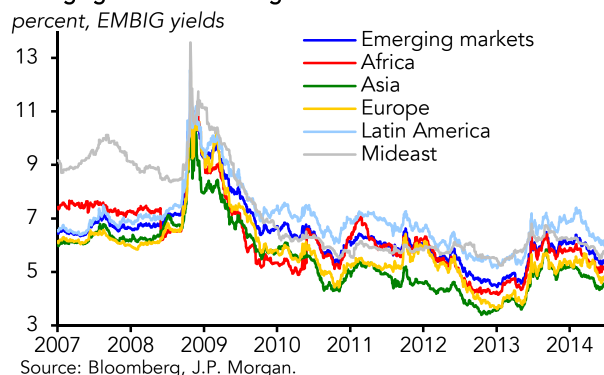
According to IIF calculations, there is indeed such a positive correlation between a country's investor relations score and its sovereign credit rating, based on an analysis of the panel data during 2010-13 on IIF IR rankings and average annual credit rating rankings for each of the 38 emerging market issuers covered by the IIF annual surveys during those years (Chart 2). The data on the sovereign rankings are based on publically available ratings from Standard & Poor's, Moody's and Fitch Ratings, converted into an index from zero for the lowest rating (selective default) to 100 for the maximum possible rating (AAA). For each year, the rating for each issuer is based on the average of the three indices. A simple regression of average sovereign rankings on IIF IR rankings based on these panel data

Chart 3
Emerging Markets Sovereign Bond Issuance
$ billion



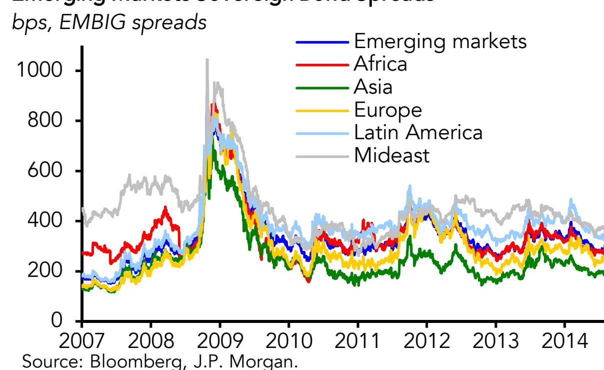
Source: Thomson ONE.

Chart 4
Emerging Markets Sovereign Bond Yields
percent, EMBIG yields



Source: Bloomberg, J.P. Morgan.

Chart 5
Emerging Markets Sovereign Bond Spreads
bps, EMBIG spreads



Source: Bloomberg, J.P. Morgan.

indicates statistically significant constant term and coefficient for IR rankings, with a coefficient of determination (R^2) of 14.32%. The latter, while low, is still equivalent to a correlation coefficient of 37.84% which signifies a moderate positive association. Further support for this association is given by the changes in the IIF IR rankings and sovereign credit rating rankings between 2010 and 2013. Countries with higher IR rankings tended to have higher rating rankings, while there was a positive correlation between the changes in the two variables (Table 4).

d. Sovereign Bond Issuance by Emerging Market and Developing Economies

The environment for sovereign bond issuance by emerging market and developing countries has continued to be very supportive, benefiting from the abundant global liquidity and low interest rates; the increasing risk appetite and search for yield by international investors and asset managers; and the continued strong growth differential and other pull factors of emerging market and developing countries. The general sell-off of emerging market financial assets in the middle of 2013 and again at the beginning of 2014 associated with the initial announcement of the pending tapering off of quantitative easing by the U.S. Federal Reserve and its eventual commencement have proven to be temporary and have had a limited impact on the annual volume of new bond issuance by emerging

Table 5
First-time Bond Issuances by Sovereigns in the International Market, 2004-3Q14*

Country	GDP *($ million, 2013)*	GDP Per Capita *($, PPP, 2013)*	Year of Debut Issue	Bond Size *($ million)*	Bond Size *(As percent of GDP)*	Tenor *(Years)*
Pakistan	236,625	4,699	2004	500	0.2	5
Ecuador	90,023	10,469	2005	650	0.7	10
Vietnam	171,392	5,293	2005	750	0.4	10
Seychelles	1,268	24,189	2006	200	15.8	5
Gabon	19,344	19,260	2007	1,000	5.2	10
Ghana	47,929	3,974	2007	750	1.6	10
Sri Lanka	67,182	9,736	2007	500	0.7	5
Georgia	16,127	7,165	2008	500	3.1	5
Senegal	15,150	2,269	2009	200	1.3	5
Albania	12,904	10,489	2010	407	3.2	5
Belarus	71,710	17,615	2010	600	0.8	5
Jordan	33,678	11,782	2010	750	2.2	5
Montenegro	4,428	14,318	2010	254	5.7	5
Namibia	12,580	9,685	2011	500	4.0	10
Nigeria	522,638	5,863	2011	500	0.1	10
Bolivia	30,601	6,130	2012	500	1.6	10
Mongolia	11,516	9,433	2012	1000 500	13.0	10 5
Zambia	22,384	3,181	2012	750	3.4	10
Armenia	10,432	7,774	2013	700	6.7	7
Honduras	18,550	4,591	2013	500	2.7	10
Paraguay	29,949	8,043	2013	500	1.7	10
Rwanda	7,452	1,452	2013	400	5.4	10
Tanzania	33,225	1,775	2013	600	1.8	7
Azerbaijan	73,560	17,139	2014	1,200	1.6	10
Côte d'Ivoire	30,905	3,012	2014	750	2.4	10
Kenya	44,101	2,265	2014	1,500 500	4.5	10 5

* Or have re-entered the market after a long hiatus. Countries meet the following criteria: 1) the issued amount is at least $200 million and 2) the instrument was issued by the central government. Most of the issuances were denominated in U.S. dollars with the exception of Albania and Montenegro that issued in euros.

Source: IMF, World Bank, IIF estimates.

market and developing countries. On an annual basis, bond issuance by emerging market and developing countries has been rising since 2011 and was particularly strong in the first half of 2014. Nonetheless, going forward, the ongoing process of normalization of the U.S. monetary policy would likely lead to higher interest rates in advanced countries and, together with potential changes in investor risk appetites and discrimination among bond issuers, pose challenges for emerging market debt markets. In such an environment, the reinforcement of the macroeconomic and prudential policies pursued by vulnerable emerging markets, as well as the enhancement of IR programs, would be of critical importance in helping to stabilize net capital inflows.

On an annual basis, after a 12% decline in 2011, new sovereign bond issuance by the 39 emerging market and developing countries monitored by the IIF for the IR surveys rose by 7.4% in 2012 and by 3.4% in 2013 (to $74 billion). More importantly, bond issuance rose further by 7.8% during the first half of 2014 relative to the issuance for 2013 as a whole, to reach $79.8 billion, which is a record level relative to past annual levels. All geographical regions participated in this increase, but issuance by emerging markets in Asia was far more pronounced in 2014 (Chart 3). Some of the most active individual emerging market sovereign debt issuers in the first half of 2014 included Mexico ($8.4 billion), Turkey ($5.4 billion), Poland ($4.6 billion), Indonesia ($4.0 billion) and Hungary ($3.0 billion).

Emerging market bond yields, as measured by the EMBIG index, rose markedly during the second half of 2013 and early 2014 but have eased somewhat thereafter. Bond spreads followed a similar trend, ranging at present from 200 to 400 basis points, and remaining only slightly above the historical low levels attained in 2007 (Charts 4 and 5).

New bond issuance by the so called frontier markets has also risen strongly over the past couple of years. The coverage of frontier markets is fairly wide, encompassing in broad terms smaller or less

Table 6
Sub-Saharan African Countries: Recent Sovereign Bond Issuance, 2011-3Q14

Country	Issue Year	Maturity	Coupon *(Percent)*	Amount *($ million) (* indicates €)*
Namibia	2011	2021	5.500	500
Nigeria	2011	2021	6.750	500
	2013	2018	5.125	500
	2013	2023	6.375	500
South Africa	2011	2041	6.250	750
	2012	2024	4.665	1,500
	2013	2025	5.875	2,000
	2014	2026	3.750	500*
	2014	2044	5.375	1,000
Senegal	2011	2021	8.750	500
	2014	2024	6.250	500
Zambia	2012	2022	5.375	750
	2014	2024	8.500	1,000
Gabon	2013	2024	6.375	1,500
Ghana	2013	2023	7.875	1,000
	2014	2026	8.125	1,000
Rwanda	2013	2023	6.625	400
Tanzania	2013	2020	6.330	600
Côte d'Ivoire	2014	2024	5.375	750
Kenya	2014	2019	5.875	500
	2014	2024	6.875	1,500

Source: National sources, Bloomberg.

developed economies with less sophisticated legal and institutional frameworks, and overlapping in some cases with traditional emerging markets. Importantly, frontier markets include new entrants (first-time issuers) in the international sovereign debt market, and most notably sub-Saharan African countries (Tables 5 and 6).

Since 2004, there have been 26 countries that have issued in global markets for the first time with the amount issued totaling approximately $17 billion denominated primarily in U.S. dollars and in part in Euros. According to the IMF, of those 26 countries, only two, Georgia and Senegal, tapped international markets for the first time during the height of the global financial crisis (2008-09) when investors withdrew from risky asset classes. In the four years prior to the crisis (2004-07), seven sovereigns came to the market for the first time while the remaining 17 countries became debut issuers after the height of the global financial crisis (between 2010 and July 2014), issuing a total of $12.4 billion. Following their debut in international capital markets, several of these borrowing countries returned to the markets with additional bond issuance, which is not covered in Table 5.

A particularly active region for frontier sovereign debt is sub-Saharan Africa. In mid-June 2014, Kenya raised $2 billion from global investors, the largest debut for an African country in the sovereign bond market amid solid demand from sovereign wealth funds, insurers and pension funds seeking assets with higher returns. The transaction, consisting of a $500 million five-year bond paying an interest of 5.875% and a $1.5 billion 10-year bond with a yield of 6.875%, was four times oversubscribed. The following month, Côte d'Ivoire issued a 10-year, $750 million bond yielding 5.625% that was six times oversubscribed. With bond issuances by frontier market countries, Zambia and Tunisia, and more traditional emerging markets, Morocco and South Africa, in recent months, the continent is on track to surpass the record $11 billion it raised last year in global capital markets.

Elsewhere, Pakistan raised $2 billion in April through a $1 billion five-year bond, priced to yield 7.25% and a $1 billion 10-year bond, priced to yield 8.25%. Two months later, Ecuador, which had been absent from global capital markets since its default in 2008, issued a $2 billion 10-year bond yielding 7.95%. Bulgaria followed suit at the end of the month with a 10-year €1.5 billion bond with a yield of 3.055%. Other emerging markets in Eastern Europe have also actively issued debt in international markets during the first half of 2014, including Slovenia ($6.2 billion), Romania ($3.7 billion), and Slovakia ($2.6 billion).

The expansion of bond issuance by frontier markets reflects both supply and demand factors (for more details, see *"First-Time International Bond Issuance—New Opportunities and Emerging Risks,"* IMF Working Paper, WP/14/127, July 2014). As for all emerging markets, the supply or push factors include the easy global liquidity conditions, the search for yield and new asset classes for portfolio diversification by major institutional and other investors. The demand, or pull, factors, include the strong actual and potential growth, the reduced public debt ratios following for most of the frontier market countries the extensive debt relief provided under the IMF's and World Bank's joint Enhanced Highly Indebted Poor Countries Initiative (HIPC), and generally improved economic fundamentals.

Debt issuance in international capital markets is also seen by the frontier market countries themselves as a means of tapping new financing sources as official concessional financing is drying up. In addition, bond issuance is considered as an opportunity to benefit from the low global interest rate environment and high investor risk appetite and overcome the constraints from the underdeveloped, shallow and high-cost domestic capital markets. Additionally, global sovereign debt issuance can provide a standard for valuing corporate bonds in global markets, over time expanding the yield curve, and helping facilitate market access for state-owned companies and the private sector. Furthermore, accessing global markets through a sovereign bond issuance can enhance macroeconomic discipline,

accelerate structural reforms, and strengthen transparency practices as a consequence of greater scrutiny by global market participants.

However, besides the opportunities for both investors and frontier market borrowers, tapping international markets could also pose risks for the issuers. Excessive borrowing in relation to GDP could expose the borrowing countries to renewed debt sustainability problems if global and/or domestic economic conditions worsen (as was the case with Seychelles in 2006-08), or put pressure on official reserves and the exchange rate, if the proceeds from foreign borrowing are not used productively (as was recently the case with Ghana and Zambia). Other potential risks include exposure to interest rate risk for countries borrowing on variable interest rates, exchange rate risk as all borrowing is in foreign currencies (U.S. dollars and euros), and roll over risk as most borrowing is in bullet bond form.

Going forward, as liquidity conditions normalize and investors become more selective, the environment for raising funds by frontier markets would become more difficult. Frontier market economies with proactive and appropriate macroeconomic and pro-growth structural policies with an added focus on strengthening their investor relations programs, data transparency, and debt management practices will be in a competitive position to attract international investment during this period of transition. In this context, the IMF underscores in its recent paper (WP/14/127) the critical role investor relations programs can play in facilitating the monitoring of sovereign primary and secondary markets, changes in investor risk appetites, improving the issuing country's market perception and increasing the likelihood of a successful rollover of maturing bonds at reasonable yields. This constitutes a major incentive for frontier market countries to either expand or institute new investor relations programs, drawing on the best practices of other, more advanced emerging market borrowers.

APPENDIX A. EVALUATION CRITERIA FOR INVESTOR RELATIONS PROGRAMS

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

Presence of institutionalized IR activities

A formal Investor Relations Program (IRP) is characterized by an Investor Relations Office (IRO), designated IR officers, and an IR website. The office may be an independent entity or a department within another financial agency, such as the Ministry of Finance (or Treasury), or Central Bank. Most IROs maintain a separate website; however, in some cases IRO's share a website with another government agency. In some cases a country can have institutionalized IR activities without having a formal IRP. The country must have these functions built into the existing framework of the Central Bank, Ministry of Finance, or government agency responsible for debt management. There must be staff responsible for communication with investors who fulfill these duties and are recognized by investors as reliable and accessible.

IR staff identifiable and reachable through website(s)

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

Central bank and government agency websites available in English

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

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

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

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

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

Investors able to register for website subscription

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

Country subscribes to SDDS

The country must subscribe to the IMF's SDDS, which was established by the IMF to guide members that have or that might seek access to international capital markets in the provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination: (1) data coverage, periodicity, and timeliness; (2) access by the public; (3) integrity of the disseminated data;

and (4) quality of the disseminated data. For each dimension, the SDDS prescribes two to four monitorable elements—good practices that can be observed, or monitored, by the users of statistics.

Effective data transparency of key elements

Country authorities must disseminate key data related to central government operations, central government debt, and external debt in a timely manner. 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.

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.

Historic policy information available

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

Forward-looking policy information available

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

Structural information available

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

Active investor contact list

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

Web-based communication with investors

Authorities respond to investor queries or concerns via 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.

Bilateral meetings with investors

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

Non-deal roadshow(s)

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

Investor conference call(s)

Country authorities conduct regular investor conference calls on key economic data and policies at least every quarter. To qualify for this criterion, the call must be public. Investors should be invited via email and/or an announcement on a government agency website. The call should be led by the IRO head and senior department heads, with involvement of senior policymakers such as the Undersecretary of Finance or Deputy Governor of the Central Bank as needed. "Closed" calls, meaning that only a small group of investors is invited and the date and time of the call is not published on the website, do not qualify for this criteria.

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

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

Investor feedback reflected in policy decisions

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

Senior policymakers' participation in IR activities

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

Regular self-assessment of IR activities

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

DATA DISSEMINATION PRACTICES

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

Central government operations

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

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

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

Central government debt

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

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

External debt

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

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

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

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

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

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

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

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

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

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

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

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

Press and IR

The press office and IRO need to coordinate their activities because the message of both of these offices has to be consistent. A press office and an IRO can benefit from working closely together, as a press release from the press office may also be circulated by the IRO. A press release issued by the

press office is not a substitute for IR. Sophisticated investors require a more detailed explanation of recent developments and policies. Following a press release, it is important for the IRO to be prepared to provide more detailed information on request.

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

ANNEX I. THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING*[1]

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.

[1]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*.

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

PRINCIPLES

1. Transparency and Timely Flow of Information

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

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

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

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

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

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

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

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

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

3. Good-Faith Actions

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

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

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

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

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

are fully serviced and maintained. Debtors should avoid additional exchange controls on outflows, except for temporary periods in exceptional circumstances. Regardless of the specific restructuring mechanics and procedures used (i.e. amendment of existing instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced. Debtors should retain legal and/or financial advisors.

4. Fair Treatment

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

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

ANNEX II. *ADDENDUM* TO THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING*[1]

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

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

agencies, accounting and other international standard setters, as well as vigilance and enhanced risk management by private creditors and market participants in general.

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

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

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

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

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

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

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

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

4. Good-Faith Actions in Cases of Debt Restructuring

(a) Voluntary Good-Faith Process

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

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

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

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

(b) Debtor and Creditor Actions During Debt Restructuring

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

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

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

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

(c) Creditor Committee Policies and Practices

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

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

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

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

(d) Tools for Debt Restructurings

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

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

5. Fair and Comparable Treatment of All Creditors

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

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

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

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Mr. Alberto G. Musalem
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Mr. Már Guđmundsson
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Former Deputy Chairman, Planning Commission
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Former Deputy Prime Minister and Minister of Finance & Economy, *Korea*

Mr. Henrique de Campos Meirelles
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Tan Sri Akhtar Aziz Zeti
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Dr. Ngozi Okonjo-Iweala
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Federal Ministry of Finance, Nigeria

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Deputy Secretary-General
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Mr. Charles Dallara
Chairman of the Americas
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Dr. Muhammad S. Al-Jasser
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Ministry of Economy and Planning, Saudi Arabia

Mr. Brian J. Porter
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Mr. Ali Babacan
Deputy Prime Minister for Economic and Financial Affairs
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Mr. Timothy Adams (ex-officio)
President and CEO
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ANNEX IV. *PRINCIPLES CONSULTATIVE GROUP*

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Brevan Howard Investment Products Limited

Mr. Michael L. Gerrard
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Mr. Luiz Pereira da Silva
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Mr. Jón Sigurgeirsson
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Member of the Bank Board
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Dr. Dagmar Linder
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Mr. Chirag Shah
Chief Strategy & Business Development Officer
Dubai International Financial Center Authority (DIFC)

Mr. László Búzás
Deputy Chief Executive Officer
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Mr. Hans J. Humes
President and Chief Investment Officer
Greylock Capital Management, LLC

Mr. Robert Gray
Chairman, Debt Financing and Advisory
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Ministry of Strategy and Finance, Korea

Ms. Faouzia Zaaboul
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Ministry of Economy and Finance, Morocco

Mr. Ludwik Kotecki
Chief Economist, Counsellor General
Ministry of Finance, Poland

Mr. Joachim Fels
Chief International Economist
Morgan Stanley & Co. International plc

Mr. Lungisa Fuzile
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Mr. Spencer Jones
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Mr. Yi Gang
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Mr. Cavit Dağdaş
Acting Undersecretary of Treasury
Undersecretariat of Treasury, Republic of Turkey

Ms. Claire Husson-Citanna
VP Portfolio Manager
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ANNEX V. IIF BEST PRACTICES FOR INVESTOR RELATIONS[1]

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.

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

IR Website

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

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

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

Dissemination of Macroeconomic Data and Policy Information

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

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

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

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

The IRO website should contain an indexed archive of the data or links to other government sites where the data are available.

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

Additional Key Data

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

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

IR Contact List

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

Feedback and Communication Channels

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

These channels could be established through:

- Teleconferences or webcasts with investors.

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

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

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

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

Times of Diminishing Market Confidence

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

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

Teleconferences or webcasts with investors should become more frequent and led directly by finance ministers, Central Bank governors, or other senior policy officials as necessary. In such circumstances, an appropriate tool for engaging in a direct dialogue with investors may be through interactive non-deal

roadshows in key financial capitals. The roadshow should be conducted by senior policymakers from all appropriate official agencies.

Regular Self-Assessment

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

Press and IR

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

- **Audience.** IR staff must deal daily with market participants who track a country's economic performance and policies on a regular basis. These investors and creditors are sophisticated in their knowledge, and they demand specific detail about the environment and outlook for economic policies and data. The press, on the other hand, is more interested in "big-picture" information that would appeal to its own audience rather than in technical details.
- **Content**. Investors require market-relevant information or data on economic policies that conform to international standards, forward-looking information on economic policies such as budget projections and monetary policy targets, and information on legal and regulatory frameworks. This information must be tailored to reflect the different requirements of various investor groups, such as bondholders, in both domestic and international capital markets, as well as equity investors. Press content focuses more on broad issues related to economic policy or political developments that do not require technical explanation or a detailed understanding of policy formulation.
- **Staff.** The skill set of IR staff differs significantly from that of press relations staff. Most importantly, to effectively communicate with market participants, IR officers must be able to speak in the language of the market (i.e., have an in-depth technical understanding not only of a country's economic performance and policies but also of how markets operate). They must be able to answer investor queries and provide market feedback to senior policymakers. While press relations staff must have a basic understanding of economic performance and policies, their skills should mostly be focused on public relations and dealing with press contacts, as well as "managing" both positive and negative political developments.

ANNEX VI. 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 Working Group on Crisis Resolution. Additionally, these best practices have been broadly endorsed by the *Principles Consultative Group*. The PCG consists of senior officials from a broad cross section of emerging market economies and senior bankers and investors involved in emerging markets finance, many of whom have been involved in the formulation of the *Principles for Stable Capital Flows and Fair Debt Restructuring*. This Group has been engaged in both encouraging and monitoring the practical application of the *Principles* through assessments of a variety of country cases. The PCG's input has been important in the shaping of these best practices in order to encourage participation from debtors who support the *Principles*. The *Principles* recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors. In fact, the key advantage of Creditor Committees for debtors has been that endorsement of the terms of a debt restructuring by the Committee signals acceptability of the deal to the wider creditor community and ensures the support of a "critical mass" of creditors and investors.

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

Going forward, support from other key bond investors should also be sought. The best practice principles should also be explained in order to facilitate supportive official sector policies. It is important to stress that negotiations in good faith should remain the essence of debt restructurings. A move away from good-faith negotiations between issuers, creditors, and investors on the basis of a limited number of exceptions is inconsistent with the international understandings that have been historically at the heart of sovereign debt restructurings. Such negotiations are also the operational consequences of the restoration of Collective Action Clauses (CACs) which have been welcomed by the G7 and the IMF.

II. The Role of Good Faith Negotiations and Creditor Committees in the *Principles*

General Guidelines for Sovereign Debt Restructurings

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

Good Faith

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

litigation risk." Such negotiations are thus at the heart of the restructuring process, including the operation of Creditor Committees.

However, it is very difficult to come to a precise definition of "good faith" and 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* aim that the final result of the restructuring process should be obtained through cooperative interaction between the debtor and its creditors. (See above section on good faith.) The *Principles* also maintain that "regardless of the specific restructuring mechanics and procedures used (i.e. amendment of existing instruments or exchange for new ones; pre -default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced."

Sovereignty of the Debtor

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

The Role of Creditor Committees in the *Principles*

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

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

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

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

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

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

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

In addition, in October 2004 the International Primary Market Association (IPMA)[1] released standard collective action clauses for fiscal agency agreements under English law that contain provisions for the appointment of a single Creditor Committee.

III. Best Practice Principles for Creditor Committees

1. Key Concerns regarding Creditor Committees

Over the past few years, establishing Creditor Committees has faced certain hurdles. On the one hand, debtors have in some cases objected to recognizing Creditor Committees for various reasons: either, because they were not involved in the formation of the Committee, had reservations regarding certain Committee members with whom they did not want to negotiate, questioned the Committee's representativeness, or because they simply did not want to negotiate with creditors and investors. On the other hand, some members of the creditor community have been reluctant to join Creditor Committees if they saw it as constraining their range of options.

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

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

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

particular fund managers, have appointed a representative to the Committee to negotiate on their behalf.

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

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

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

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

The other issue is that securities laws (in most jurisdictions) preclude trading on non-public material information and a Committee is likely to come in contact with such information. This is a concern for creditors, investors, and debtors. For creditors and investors, the "stop trading" rules of some previous restructurings are not feasible. For the debtor who may bear many of the negative consequences of information leaks and insider trading, a "no trading" rule may be preferred for Committee members.

As a possible solution, a "code of conduct" has been used in a few cases in the sovereign context but cues have been taken in particular from corporate restructurings. Such a code is an agreement between the debtor and the Creditor Committee on a range of issues. It imposes simple restrictions on confidential information on both sides and offers more flexibility on trading for Committee members who commit to complying with insider trading rules.

The best practice principles articulated below address these key concerns as well as other issues with the aim to develop a better basis for Creditor Committees to be acceptable to issuers and protect the rights of creditors and investors.

2. Creditor Committee Best Practice Principles

A. Initial Formation

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

B. Cooperation and Trust

1. In order for the negotiations to proceed in an orderly manner, an element of trust must be

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

developed between the debtor and the members of the Committee, as well as among Committee members themselves.

2. The *Principles* call on the debtor, and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors.

C. Diversity of the Creditor Community

1. The Committee should consist of creditors and investors who can reflect the interests of the range of members of the creditor community affected in the negotiation process.

2. Diversity of Committee members should encompass not only financial instruments and investment strategies but also regional differences. The latter is particularly useful in order to consider differential tax treatments and regulatory differences that may help design options to facilitate the participation of the creditor community in different jurisdictions in the restructuring.

3. In order to facilitate participation by hedge funds and asset managers who may face conflicts of interest when they come into contact with material non-public information or other constraints (staffing, for example), an external representative could be appointed by either an individual fund or a group of fund creditors and investors, if considered necessary. Such an individual should have appropriate restructuring experience (as described below) and operate under his terms of reference. This representative would be bound by confidentiality parameters (see below) and only would provide the necessary information that his clients need in order to make decisions regarding the restructuring negotiations.

4. The Committee should be of a manageable size but Committee membership should not be limited only to "large" creditors and investors. At the same time, the Committee as a whole should hold or represent a substantial amount of claims and include a diverse set of creditors and investors (see *Diversity* above).

5. A Committee must have credibility with the debtor and be able to signal that it has influence with a critical mass of all creditors and investors.

D. Speed of Process:

1. The creditor community should work closely with the debtor toward the formation of the Committee, recognizing that this process can be initiated through different channels. There should be a presumption that speed is of the essence.

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

3. Creditors, investors, and the debtor should agree on the negotiation process that should be followed, including the nature and sequence of the discussions. Such an understanding, which of course should not delay the actual negotiations, could help inform the IMF, for example if judgments on lending into arrears need to be made.

4. Committee members should take into account the time commitment they must set aside from their day-to-day work in order to participate in restructuring negotiations. To ensure continuity, it is

important that a particular creditor or investor be represented by the same individual throughout the restructuring process.

5. Effective Committee leadership will be key to ensuring an efficient Committee process.

E. Confidentiality

1. The members of the Committee, the debtor, and advisory firms should consider agreeing on and signing a 'code of conduct.'

2. Any information not already in the public domain is considered confidential.

3. Under the code, parties have to refrain from disclosing confidential information to any one other than a list of related parties (provided they also subject themselves to the code) unless required by law.

4. Under the code, parties could issue periodic press releases that comply with applicable securities law to "share information with the market." Information must not be released that either "conditions the market" for an offering or that could be seen as deceptive.

5. Legal advisors to parties should advise on what information can be released.

6. Committee members should implement Chinese Walls or similar measures to ensure that those who make trading decisions are not in the possession of confidential information that is shared in the context of a restructuring negotiation.

7. Negotiations should take place directly between the debtor and creditors, without the participation of multilateral or bilateral organizations. Both debtor and creditors should avoid commenting on the negotiations.

F. Restructuring Experience

1. The "tool kit" of at least some of the Committee members' experience should include practical skills in sovereign and/or non-sovereign restructurings.

2. Creditors and investors who are new to the asset class should not be excluded for lack of experience, in particular if their claims are substantial.

3. Committee members should consider the feasibility of particular restructuring proposals they aim to advance with the debtor.

G. Legal Advisors

1. The law firm representing the Committee should have ample debt restructuring experience.

2. If the firm has business relationships with Committee firms, in particular those with sizable shares of the outstanding debt, potential conflicts of interest should be addressed internally.

H. Logistical Support

1. Creditor Committee members should share responsibilities for providing facilities and staff to arrange meetings and for handling communications with the debtor as well as other members of the creditor community not on the Committee.

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

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