

IMF SOVEREIGN DEBT CONFERENCE

The Restructuring Process

Discussant:

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Considerations on the Restructuring Process

1 What is the purpose of this chapter? Description or prescription?

2 While the sovereign debt restructuring process is not codified, there are well-accepted procedures. This chapter attempts to catalogue “best practices” derived from historical milestones in sovereign debt restructuring. These include:

- Bring the IMF in -- as early as possible;
- Extensive consultations with creditors (but not necessarily through creditor committees);
- Promote “community of interests” among groups of creditors, especially in dealing with the holdout creditor problem;
- Debtor country should avoid the temptation to ask for (i) insufficient debt relief (leading to serial restructurings) or (ii) excessive debt relief (leading creditors to view the process as confiscatory or expropriatory).

Considerations on the Restructuring Process *(cont'd)*

3 What more can be emphasized in this chapter?

- The holdout creditor problem is currently the principal stumbling block in achieving an efficient debt restructuring process (fundamentally different from corporate insolvency process with its “cramming” technique);
- Aggregated CACs in sovereign bond documentation have recently shifted away from the “two-limb” CAC (Uruguay 2003 model) to the “single limb” CAC (ICMA’s 2015 model). Single limb clauses, however, have not been uniformly adopted by debtor countries or stress tested in sovereign debt restructurings;
- What are the limits of replicating corporate bankruptcy/insolvency experience and techniques in sovereign debt workouts and processes. After all, in a sovereign workout there is no judicial oversight, no ability to force a distribution of debtor assets and no binding rules for coordination among different classes of creditors;
- How to achieve greater transparency and uniformity in assessing (and disclosing to the market) the sovereign debt stock?;
- The increasingly blurred line between “domestic” and “external” debt. Can any guidelines be prescribed here?

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Practitioner Views

Discussant:

- **Eric Lalo**, Managing Director, Co-head of Sovereign Advisory Group, Lazard


Practitioner Views: Overview of Key Recent Developments



Creditors' universe has become more diversified, sophisticated and fragmented while debt stocks have been rising substantially; back to pre-HIPC levels for most HIPC countries



Market conditions becoming tougher, with FX EM bonds markets closed since early June (save for Eskom), and EM Flows (FX & Local) turning negative => Refinancing walls looming ahead



Debt Perimeter targeted for restructuring is becoming more difficult to apprehend, with banking sector doom loop risks, SOEs rising over-indebtedness, PPPs Contingent Liabilities unknowns => Data transparency and IMF DSA shocks becoming key issues



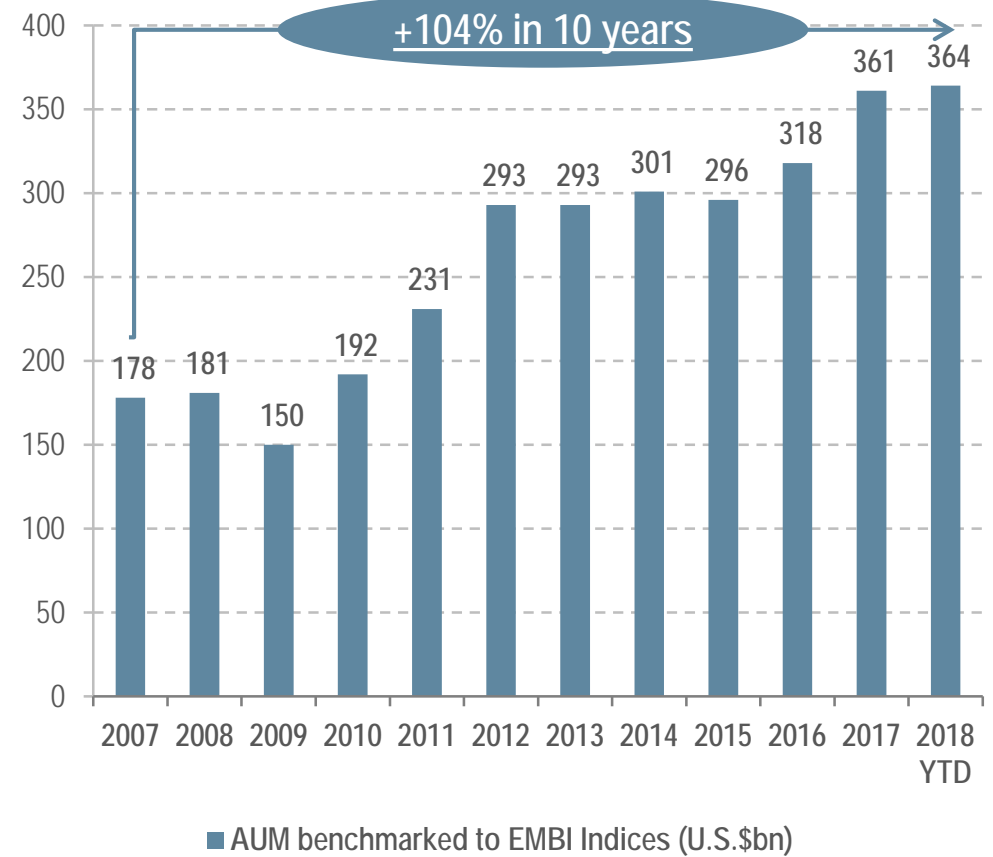
Rising domestic debt financing and heavy EM Funds investments in domestic bonds over the past years (cf. AUM benchmarked to EMBI and GBI) create a new layer of complexity in addressing comparability of treatment between creditors' classes



Excluding domestic debt from restructurings may become inadequate in certain countries considering its weight in public debt stock, and precedents on the Creditors' Residence criteria, but could lead to applicable laws divergence issues (opportunities)

Practitioner Views: Focus on AUM Benchmarked to EM Bond Indices

Assets under management benchmarked to EM local bond indices have increased more than 10 times in 10 years:



Source: J.P. Morgan Local Markets Guide, May 2018

Practitioner Views: Selected Conclusions

1

PRIOR ISSUES TO ADDRESS TO ENSURE APPROPRIATE AND FAIR BURDEN SHARING IN FUTURE RESTRUCTURINGS

- Role of IMF DSA: central in assessing informed overall debt trajectory risks, including hidden and contingent liabilities and required debt relief
- Data transparency: Efforts required to better apprehend distribution of risks among all stakeholders and satisfy inter-creditor equity issues

2

STAKE-HOLDERS ENGAGEMENT IN A CONTEXT OF INCREASED CREDITORS HETEROGENEITY

- Formation of ad-hoc or formal committees: needs to happen quickly to avoid maverick/hold-out creditors forming blocking positions => requires adequate ex-ante data availability
- Cohesion and representativity of committees requires regular cleansing of MNPI during the process => Institutional EM funds are generally allergic to holding MNPI
- Negotiation process must be expedited to avoid weakening of domestic political momentum, and allow for quick restoration of market access => how to fast-track an orderly process ?