

PRESS RELEASE

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Institute of International Finance
International Primary Market Association
Securities Industry Association *The Bond Market Association*

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Financial Industry Leaders Announce Consensus on Crisis Management and Sovereign Debt Restructuring Market-Based Principles Agreed By Major Global Associations

Washington, DC, New York, London, June 11, 2002 - The leaders of six private sector groups of financial institutions released today a set of general principles for crisis management in emerging markets, including greater use of collective action clauses in sovereign debt contracts. The organizations are: the Emerging Markets Creditors Association (EMCA), EMTA (formerly the Emerging Markets Traders Association), the Institute of International Finance (IIF), the International Primary Market Association (IPMA), the Securities Industry Association (SIA), and The Bond Market Association (TBMA).

These principles are set forth in a letter addressed to the G-7 Finance Ministers and Central Bank Governors, who in April expressed support for the development of a market-oriented process toward sovereign debt restructuring based on contractual arrangements.

Charles Dallara, Managing Director of the IIF, stated that it is essential that approaches to sovereign debt restructuring be developed within a holistic framework that avoids debt restructuring where still possible, facilitates it where necessary, and restores early market access. The use of collective action clauses in individual sovereign debt contracts would introduce a useful element of suppleness into the system. Michael Chamberlin, EMTA's Executive Director, added that over the past months, considerable efforts have been made to achieve an industry consensus on the most appropriate changes in sovereign debt documentation to preserve and reinforce essential creditor protections while helping to facilitate orderly reschedulings in those few cases in which it is needed. What he considered is most significant about today's announcement is the breadth of the private sector groups that have come together to form this consensus.

Abigail McKenna, Chairman of the Board of EMCA, emphasized that in cases in which restructuring becomes necessary, transparency in the negotiating process is a key principle. Specifically, the information to be provided to creditors by a sovereign seeking a debt restructuring should include a comprehensive review of the potential claims on its international reserves (by foreign and domestic private and public sector claimants, including potential claims for repatriation of foreign direct investment), as well as proposed restructuring terms for various claimant groups. Any official support for restructuring should be conditional upon these transparency principles *inter alia*.

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The industry consensus underscores the paramount importance of transparency more broadly. Crises can be averted and resolved more readily with the increased provision of quality data by sovereigns when market access is normal as well as when a crisis has erupted. At a minimum, enhanced financial information covenants should be included in bond documentation. As a means of further reinforcing financial discipline, it may be desirable to include or strengthen other covenants such as negative pledge and debt limitation provisions and to increase the percentages of bondholders required to amend these and other provisions.

Despite numerous measures that have helped bolster the global financial system since the Mexican crisis in 1995, the groups are of the view that crises will occur from time to time. The principle was agreed that early consultation between the debtor and its key creditors can help policymakers identify measures that can avert a deepening crisis and restore confidence. In fact, successful efforts at this stage can address most crises in an efficient manner and reduce significantly the number of cases requiring comprehensive sovereign debt restructuring. For example, the creation of a Private Sector Advisory Group (PSAG) can provide a useful forum to facilitate early consultations and collective action.

Continuing dialogue by a sovereign with its investors and creditors can reduce the likelihood of crises can also facilitate the formation of an ad hoc Creditor Group consisting of a broad spectrum of creditors, including banks and bondholders, that engages in negotiations when comprehensive restructuring becomes necessary. Marc Lackritz, President of the SIA noted that each debt restructuring will necessarily be unique, and it is likely that in most cases a Creditor Group can be formed without requiring formal debt holder meetings and without specific delegation of powers to debt holder representatives. Nevertheless, having procedures in place for establishing a Creditor Group that can be formed within and across debt instruments is desirable.

Although free riders have not been an obstacle to reaching comprehensive debt restructuring agreements, it is useful to consider means of limiting the potential of disruption in the future. Supermajority clauses, if properly framed, can facilitate orderly restructuring without impairing creditors' rights. Robert Gray, Chairman of IPMA noted that in debt instruments involving multiple creditors, the groups have agreed that a sufficiently high supermajority requirement should be adopted for amending core provisions such as scheduled principal or interest payment dates or amounts, currency of payment, governing law, waiver of sovereign immunity, and submission to jurisdiction provisions.

Another agreed principle is that more effective use of trustee arrangements could help facilitate the process of obtaining creditor decisions in many cases. At the same time, requiring a supermajority of holders across all outstanding debt instruments, rather than instrument by instrument, will likely make the restructuring process more cumbersome and less achievable.

There may be circumstances when a rollover of debt maturities or a temporary cessation of payments (without a suspension of enforcement rights) may become useful for moving toward a resolution of a particular crisis. Drawing on the experience from recent cases (e.g., Korea and Brazil), the principle was agreed that such an approach is best pursued within a cooperative framework whereby debtors and creditors reach an informal understanding on a voluntary, temporary standstill conditional upon the debtor's economic performance. Such voluntary approaches have helped to restore investor confidence and to facilitate renewed market access. By contrast, an approach based on creditors ceding their basic rights ex ante bears a substantial risk of delaying markedly renewed market access of the crisis country. Moreover, customary contract clauses on acceleration and de-acceleration of debt can serve to avoid disruptive litigation during the period in which negotiations are organized achieve the same results.

The private sector leaders were of the view that their market-based approach is broadly consistent with the market-oriented approach that was articulated by the G7, and expressed their strong interest in working with the official community to develop and implement this market-based framework for more orderly crisis management that will strengthen the framework for private capital flows to emerging

markets. Other private sector groups such as the EFFAS–European Bond Commission have also expressed support for the private sector principles and fully endorse this press release.