

Marketable Bonds Package¹

- A. Collective Action Clauses (CACs) (See Annex A1-A3 for New York and English-style)
- (1) Majority Action. Permit the amendment and waiver of certain key Bond terms (including payment terms, as well as other substantial covenants as appropriate) by approval of a Super-Majority of Bonds outstanding.
 - May be approved by written resolution as well as at Bondholder meetings.
 - Bonds held or controlled, directly or indirectly, by the Issuer to be excluded from voting calculation.
 - (2) Engagement. Provide for the appointment by Bondholders of a Committee to represent Bondholder interests, after an Event of Default has occurred or the Issuer has initiated restructuring discussions, in connection with such discussions with the Issuer and other creditors. Committee may adopt such internal rules as it sees fit and engage legal and financial advisors, subject to reimbursement by the Issuer.
 - (3) Initiation. Require 25% Bondholder vote to accelerate principal for Event of Default and provide for Super-Majority vote to rescind acceleration.
 - (4) Transparency. Provide for SDDS and rolling forecasts, as well as reporting of proposed treatment of other creditor groups in proposed restructurings. Provide for better use of financial community websites for notices and other information.

Other essential characteristics of the two legal structures (including their distinctive approaches to administration, enforcement and distribution of proceeds) to remain unchanged.²

- B. Code of Conduct for Emerging Markets (See Annex B)
Outline of expectations for conduct by debtors, creditors and official sector.
- C. Bond Documentation Chart (See Annex C)
Add to IPMA launch data a chart-style disclosure of key Bond terms. Set up documentation library. Goal is greater transparency of key Bond Terms.
- D. Credit Barometer (See Annex D)
Set of leading performance indicators to be calculated from SDDS data and published on websites, etc., with the goal of highlighting them for market and policymakers.

¹ While this integrated Package has been prepared by EMTA, EMCA, IIF, IPMA, ISMA, SIA and TBMA in consultation with representatives of their member firms, it does not necessarily represent the views of, and is not intended to bind, any particular member firm in any way. In addition, this Package necessarily assumes the absence of a statutory Sovereign Debt Restructuring Mechanism.

² EMCA and EMTA are unable to endorse the English-style documents included in this Package because, while they represent an improvement in the Bond documentation currently in use in the Euromarkets, such documentation typically contains a sharing mechanism and unduly restricts the right of individual bondholder action.

MODEL COLLECTIVE ACTION CLAUSES

FOR

SOVEREIGN BONDS

(NEW YORK LAW BONDS WITH FISCAL AGENT)

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NY Law Bonds with Fiscal Agent

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(1) AMENDING BOND TERMS AND CONVENING BONDHOLDER MEETINGS

(a) Meetings of Bondholders; Amendments

- (a) The Issuer at any time may, and upon a request in writing to the Fiscal Agent made
 - (i) at any time by Bondholders holding at least 10% of the aggregate principal amount of the Bonds then Outstanding or
 - (ii) after (x) the occurrence of any Event of Default (or event which, with the giving of notice or passing of time (or both) would become an Event of Default) or (y) receipt by the Fiscal Agent of written notice from the Issuer, or any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Bonds (whether by amendment, exchange offer or otherwise), by Bondholders holding at least 5% of the aggregate principal amount of the Bonds then Outstanding

the Fiscal Agent shall, convene a meeting of Bondholders. [Further provisions concerning Bondholder meetings are set forth in the Fiscal Agency Agreement.]

- (b) Modifications and amendments to the Bonds or the Fiscal Agency Agreement requiring Bondholder consent may be made, and future compliance or past default by the Issuer may be waived, with the consent of the Issuer and the holders of at least 75% in aggregate principal amount of the Bonds then Outstanding; provided that

- (x) no such modification, amendment or waiver may, without the consent of the holders of at least 85% in aggregate principal amount of the Bonds then Outstanding:

- (i) change any due date for the payment of the principal of or interest on any Bond;
 - (ii) reduce the principal of or interest on any Bond;
 - (iii) change the currency of payment of the principal of or interest on any Bond;
 - (iv) change * [the *pari passu* [or other specified substantive covenants as appropriate, to be determined on a case-by-case basis]];
 - (v) change * [the events of default or negative pledge] in such a way as to substantially deprive holders of the benefits thereof; or

(vi) reduce the percentage of aggregate principal amount of Bonds Outstanding required for the taking of any action or reduce the quorum required for any Bondholder meeting;

and provided, further, that no such modification, amendment or waiver in respect of any matter specified in clauses (i)-(vi) above shall become effective over the objection of the holders of more than 10% in aggregate principal amount of the Bonds then Outstanding; and

(y) no such modification, amendment or waiver may, without the consent of each holder affected thereby, change * [the governing law, submission to jurisdiction, service of process or waiver of sovereign immunity applicable to the Bonds].

[insert any provisions regarding binding effect, etc.]

* Insert appropriate Section references.

- (c) Voting by Bondholders in respect of any modification, amendment or waiver of the terms of the Bonds or the Fiscal Agency Agreement may be conducted by written resolution or at a duly convened meeting of Bondholders, it being understood that in the case of any modification, amendment or waiver in respect of any matter specified in clauses (b)(x)(i)-(vi) above, all Bondholders shall be provided the opportunity to consent or object thereto by casting an affirmative or negative vote.
- (d) At a meeting of Bondholders called for any of the above purposes, persons entitled to vote at least 75% in aggregate principal amount of the Bonds then Outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned for such succeeding periods of not less than ten days as may be necessary.

(b) Related Definition

“Outstanding” means, in relation to the Bonds, all Bonds authenticated and delivered, *except*:

[Include relevant provisions regarding Bonds already redeemed, cancelled, void, etc.]

provided, however, that in determining whether the holders of the requisite principal amount of Bonds Outstanding are present at a meeting of holders of Bonds for quorum purposes or have consented to or voted in favor of any matter hereunder, Bonds which are owned or controlled, directly or indirectly, by or on behalf of the Issuer or any agency or instrumentality of the Issuer and which have not been cancelled shall (unless and until they are no longer so owned or controlled) be deemed not to be Outstanding.

(2) APPOINTMENT OF REPRESENTATIVE BONDHOLDER COMMITTEE

(a) Representative Bondholder Committee

At any time following

- (i) any Event of Default (or event which, with the giving of notice or passing of time (or both), would become an Event of Default) or
- (ii) receipt by the Fiscal Agent of written notice from the Issuer, or any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Bonds (whether by amendment, exchange offer or otherwise),

the holders of Bonds may, with the consent or affirmative vote of the holders of more than 50% in aggregate principal amount of the Bonds then Outstanding, appoint any persons as a committee to represent the holders of Bonds; provided, that no such appointment shall become effective over the objection of the holders of more than 25% in aggregate principal amount of the Bonds then Outstanding. Such committee may, among other things, (x) engage legal counsel and financial advisors to assist it in representing the collective interests of the holders of Bonds, (y) adopt any rules regarding its internal meetings and (z) enter into discussions with the Issuer and/or its other creditors. The Issuer shall pay any fees and expenses of such committee (including, but not limited to, the fees and expenses of any such legal counsel and financial advisors) within 30 days after delivery to the Issuer of a reasonably detailed invoice with supporting documentation.

(3) ACCELERATION AND DE-ACCELERATION

If any Event of Default shall occur and be continuing, then the holders of 25% or more in aggregate principal amount of the Bonds then Outstanding (as defined in the Fiscal Agency Agreement) may, by written demand to the Issuer at the office of the Fiscal Agent, declare all of the Bonds then outstanding to be immediately due and payable, whereupon the principal of the Bonds and the interest accrued thereon and all other amounts payable with respect to the Bonds shall become and be immediately due and payable.

If the Fiscal Agent receives written notice from holders of at least 75% in aggregate principal amount of the Bonds then Outstanding that each Event of Default giving rise to such declaration of acceleration has been cured and that such holders request the Fiscal Agent to rescind such declaration, the Fiscal Agent shall, by notice to the Issuer and to the Bondholders, rescind such declaration, whereupon it shall be rescinded and of no further effect.

(4) **FINANCIAL AND OTHER INFORMATION**

(a) **SDDS Reporting**

So long as any Bond remains outstanding, the Issuer shall maintain its subscription to and fully comply with the SDDS[; *provided, however*, if the Issuer does not, at the date of issuance of the Bonds, subscribe to the SDDS, then it shall subscribe to and fully comply with the SDDS no later than [*third anniversary of such date of issuance*]]. For these purposes:

- (i) “**SDDS**” means the Special Data Dissemination Standard established by the International Monetary Fund as in effect from time to time; and
- (ii) any matter which the SDDS specifies as being encouraged (rather than mandatory) shall be regarded as being mandatory.

(b) **Rolling Twelve-Month Forecasts**

So long as any Bond remains outstanding, the Issuer shall prepare and publish (in the same manner in which data required under the SDDS needs to be published), no later than [10] business days after the end of each calendar quarter in each year, the following:

- (i) a twelve-month projection (prepared as of the end of such calendar quarter) in respect of each aspect of the central government budget required to be disclosed on an actual basis under the SDDS; and
- (ii) a twelve-month projection (prepared as of the end of such calendar quarter) for each inflation figure required to be disclosed on an actual basis under the SDDS.

[Provided, however, if the Issuer does not, at the date of issuance of the Bonds, subscribe to the SDDS, then such projections shall be required as from the end of the first calendar quarter to fall after the earlier of (x) the Issuer’s subscription to the SDDS and (y) [*the third anniversary of such date of issuance.*]

(c) **Other Information**

So long as any Bond remains outstanding, the Issuer shall provide the following information in reasonable detail no later than [10] business days after agreement on the applicable arrangements (or in the case of paragraph (v) below, no later than [10] business days after the request from the Fiscal Agent):

- (i) the terms of any agreed minute, procès verbal or other similar record of agreed Paris Club arrangements relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies;

- (ii) the terms of any bilateral agreement entered into pursuant to any such Paris Club arrangement;
- (iii) comparable information to that referred to in (i) or (ii) above regarding restructuring arrangements (whether by amendment, exchange offer or otherwise) relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies with any creditor not participating in Paris Club arrangements, where the aggregate amount of affected indebtedness exceeds U.S.\$[_____] (or its equivalent in any other currency);
- (iv) the terms of any standby, extended fund or similar facility between the Issuer and the International Monetary Fund (including a copy of any related technical memorandum); and
- (v) such other information as the Fiscal Agent (acting at the request of holders of at least 5% of the aggregate principal amount of the Bonds then Outstanding) may from time to time reasonably request.

(d) **Notices, etc.**

[Additional Language for Notices Section]

In addition, notices and other information required to be given to Bondholders shall be given to the International Primary Market Association (IPMA), EMTA (formerly the Emerging Markets Traders Association), the Emerging Markets Creditors Association (EMCA) and the Institute of International Finance (IIF) for publication on their respective websites.

MODEL COLLECTIVE ACTION CLAUSES

FOR

SOVEREIGN NOTES

(ENGLISH LAW NOTES WITH TRUSTEE)

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ENGLISH LAW NOTES WITH TRUSTEE

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1. Amending Note Terms and Convening Noteholder Meetings

1.1 PROVISIONS FOR NOTE CONDITIONS

Meetings of Noteholders; Written Resolutions

- (a) The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Subject to paragraph (c) below, any such modification may be made if approved by an Extraordinary Resolution. For these purposes, "Extraordinary Resolution" means (a) in relation to a proposal relating to any matter other than [*summarise list of Reserved Matters*] (each, a "Reserved Matter")¹, a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Trust Deed by a majority of not less than 75 per cent. of the votes cast and (b) in relation to a proposal relating to any Reserved Matter, a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Trust Deed which meets the following two requirements, namely, first, the holders of not less than 85² per cent. of the principal amount of the outstanding Notes voted in favour of such resolution and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes voted against such resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee (i) at any time following a Relevant Event (as defined in the Trust Deed), upon the request in writing of holders of not less than 5 per cent. of the aggregate principal amount of the outstanding Notes and (ii) at any other time, upon the request in writing of holders of not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting of Noteholders, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* proposals relating to any Reserved Matter may only be approved by an Extraordinary Resolution passed at a meeting of Noteholders at

¹ It is customary to summarise the list of Reserved Matters in the Conditions so as to ensure full disclosure is made to Noteholders. However, for the sake of brevity and to avoid unnecessary repetition, in these Model Clauses the definition of ^{Reserved} Matters only appears in the definition set out below for inclusion in the definitions section of the Trust Deed.

² In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

which two or more persons holding or representing not less than 85³ per cent. of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

- (b) In addition, the Trust Deed contains provisions for the passing of resolutions in writing without the convening of a meeting of Noteholders. A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the principal amount of the outstanding Notes (in the case of a resolution in relation to a proposal relating to any matter other than a Reserved Matter) will take effect as if it were an Extraordinary Resolution. In the case of a resolution in relation to a proposal relating to a Reserved Matter, a resolution in writing which satisfies the following two requirements will take effect as if it were an Extraordinary Resolution, namely, first, it is signed by or on behalf of the holders of not less than 85⁴ per cent. of the principal amount of the outstanding Notes and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes have, by notifications in writing to the Trustee, voted against such resolution in writing during the time prescribed by the Trustee for such notifications. Any resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.
- (c) Notwithstanding paragraphs (a) and (b) above, no such modification, amendment or waiver, whether by way of Extraordinary Resolution, Written Resolution or any other means shall, without the consent of each Noteholder affected thereby, modify, amend or waive Condition [] (*Governing law, Jurisdiction, Waiver of Immunity and Service of Process*).

1.2 ASSOCIATED DEFINITIONS OF THE TRUST DEED

"Extraordinary Resolution" means:

- (a) in relation to a proposal relating to any matter other than a Reserved Matter, a resolution passed by a majority of not less than 75 per cent. of the votes cast at a Meeting duly convened and held in accordance with *[the Schedule to the Trust Deed relating to meetings]*; and

³ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

⁴ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

- (b) in relation to a proposal relating to any Reserved Matter, a resolution passed at a Meeting duly convened and held in accordance with [*the Schedule to the Trust Deed relating to meetings*] which meets the following two requirements, namely, first, the holders of not less than 85⁵ per cent. of the principal amount of the outstanding Notes voted in favour of such resolution and, secondly, the holders of not more than 10 per cent of the principal amount of the outstanding Notes voted against such resolution;

"Potential Event of Default" means an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition [] (*Events of Default*) become an Event of Default;

"outstanding" means, in relation to the Notes, all the Notes other than:

[*Include relevant provisions dealing with Notes which have already been redeemed, cancelled, become void etc*]

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders or the right to vote for the purposes of a Written Resolution;
- (ii) determining whether the quorum requirement for the purposes of any meeting is satisfied;
- (iii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clauses [] (*Legal Proceedings*) and [] (*Waiver*), Conditions [] (*Events of Default*), [] (*Meetings of Noteholders; Modification*) and [] (*Appointment of Representative Noteholder Committee*); and
- (iv) any discretion, power or authority, whether contained in this Trust Deed or provided by law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held or controlled, directly or indirectly, by or on behalf of the Issuer or any agency or instrumentality of the Issuer and which have not been cancelled shall (unless and until ceasing to be so held or controlled) be deemed not to remain outstanding;

⁵ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

"Relevant Event" means:

- (a) the occurrence of any Event of Default or Potential Event of Default; or
- (b) the receipt by the Trustee of written notice from the Issuer, or any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise);

"Reserved Matter" means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;
- (b) to change the currency in which amounts due in respect of the Notes are payable;
- (c) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution;
- (d) to amend this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution"; or
- (e) to amend or waive the *pari passu* provisions of the Notes set out in Condition [] (*Status*) [*or other specified covenants as appropriate, to be determined on a case-by-case basis*⁶]; or
- (f) amend or waive [*the events of default or negative pledge*] in such a way as to substantially deprive Noteholders of the benefit thereof;⁷

"Written Resolution" means:

- (a) in relation to a proposal relating to any matter other than a Reserved Matter, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the principal amount of the outstanding Notes; and
- (b) in relation to a proposal relating to a Reserved Matter, a resolution in writing which satisfies the following two requirements, namely, first, it is signed by or on behalf of the holders of not less than 85⁸ per cent. of the

⁶ Insert appropriate references to particular numbered Conditions of the Notes.

⁷ Insert appropriate references to particular numbered Conditions of the Notes.

⁸ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%

principal amount of the outstanding Notes and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes have, by notifications in writing to the Trustee, voted against such resolution in writing during the time prescribed by the Trustee for such notifications,

in each case whether contained in one document or several documents in like form, each signed by or on behalf of one or more such holders of the Notes.

1.3 ADDITIONAL PROVISIONS OF THE TRUST DEED

Extraordinary Resolution binds all holders

An Extraordinary Resolution shall be binding upon all Noteholders, whether or not present at such Meeting, and each of the Noteholders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given to the Noteholders and the Paying Agents (with a copy to the Issuer and the Trustee) within 14 days of the conclusion of the Meeting or completion of the procedures for a Written Resolution.

Form of Resolution for Reserved Matters

Any resolution associated with a proposal relating to any Reserved Matter or any proposal for the purposes of appointing a representative Noteholders committee following a Relevant Event (in each case, whether submitted to a vote at a duly convened meeting of Noteholders or submitted to Noteholders in writing) shall provide Noteholders with the opportunity to consent or object thereto by permitting the casting of an affirmative or negative vote.

Written Resolution

A Written Resolution shall take effect as if it were an Extraordinary Resolution.

2. **APPOINTMENT OF REPRESENTATIVE NOTEHOLDER COMMITTEE**

(Additional Provision for Trust Deed)

At any time following a Relevant Event,^{*} the Noteholders may, by notice in writing to the Trustee from, or a resolution passed by the affirmative vote of, the holders of more than 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any persons as a committee to represent the interests of the Noteholders; *provided, however, that* no such appointment shall be effective if the holders of more than 25 per cent. of the principal amount of the outstanding Notes have either (a) by notification in writing to the Trustee objected to such appointment during the time prescribed by the Trustee for such notifications or (b) voted against such resolution. Such committee, in its discretion, may, among other things (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

^{*} See Model Clause 1 and associated definitions for definition of "**Relevant Event**".

3. Collective Acceleration and de-Acceleration

(To be included in Events of Default Provision in Note Conditions)

If any Event of Default* occurs and is continuing, then the Trustee at its discretion may, or at the request in writing of the holders of not less than 25 per cent. in aggregate principal amount of the Notes then outstanding shall, by notice in writing to the Issuer, declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

If the Trustee receives written notifications from holders of not less than 75 per cent. in aggregate principal amount of the Notes then outstanding to the effect that the Event of Default or Events of Default giving rise to the above mentioned declaration of acceleration is or are cured following such declaration and that such holders request the Trustee to rescind such declaration, the Trustee shall, by notice in writing to the Issuer, rescind such declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default or any right of the Trustee or any Noteholder in relation thereto.

* The precise definition of Event of Default will be set out in the Condition of the Notes dealing with the Events of Default.

4. **FINANCIAL AND OTHER INFORMATION**

(Additional Provision for Note Conditions)

(a) *SDDS Reporting*

So long as any of the Notes remains outstanding, the Issuer shall maintain its subscription to and fully comply with the SDDS[; *provided, however, that, if the Issuer does not, at the date of issuance of the Notes, subscribe to the SDDS, then it shall subscribe to and fully comply with the SDDS no later than [third anniversary of the Issue Date]*].

For these purposes:

- (i) "SDDS" means the Special Data Dissemination Standard established by the International Monetary Fund as in effect from time to time; and
- (ii) any matter which the SDDS specifies as being encouraged (rather than mandatory) shall be regarded as being mandatory.

(b) *Rolling 12 Month Forecasts*

So long as any of the Notes remains outstanding, the Issuer shall prepare and publish (in the same manner in which data required under the SDDS needs to be published), no later than [10] business days after each Quarter Day in each year, the following:

- (i) a 12 month projection (prepared as from such Quarter Day) in respect of each of those aspects of the central government budget which are required to be produced on an actual basis under the SDDS; and
- (ii) a 12 month projection (prepared as from such Quarter Day) in respect of each of the inflation figures which are required to be produced on an actual basis under the SDDS;

provided, however, that, if the Issuer does not, at the date of issuance of the Notes, subscribe to the SDDS, then the above-mentioned projections shall be required as from the earlier of (x) the first Quarter Day to fall after the Issuer does subscribe to the SDDS and (y) the first Quarter Day to fall after [third anniversary of the Issue Date].

For these purposes "**Quarter Day**" means, in relation to a year, 31 March, 30 June, 30 September and 31 December of that year.

(c) Other Information

So long as any of the Notes remains outstanding, the Issuer shall provide the following information in reasonable detail no later than [10] business days after agreement on the applicable arrangements (or in the case of paragraph (v) below, no later than [10] business days after the request from the Trustee), namely:

- (i) the terms of any agreed minute, procès verbal or other similar record of agreed Paris Club arrangements relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies (and shall ensure that the stock of affected debt and applicable rescheduling terms are described);
- (ii) the terms of any bilateral agreement entered into pursuant to a Paris Club arrangement relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies (and shall ensure that the stock of affected debt, interest terms and other applicable rescheduling terms are described);
- (iii) corresponding information to that described in (i) or (ii) above in relation to restructuring arrangements (whether by amendment, exchange offer or otherwise) relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies with any other creditor or creditors not participating in Paris Club arrangements where the aggregate amount of affected indebtedness exceeds U.S.\$[] (or its equivalent in any other currency or currencies);
- (iv) the terms of any standby, extended funds or similar facility settled between the Issuer, its government or any ministry of the Issuer and the International Monetary Fund (including a copy of any related technical memorandum); and
- (v) such other information as the Trustee (whether at the instruction of holders of not less than 5 per cent. of the aggregate principal amount of the outstanding Notes or otherwise) may from time to time reasonably request.

All such information shall be provided to the Trustee and to each of the Relevant Industry Bodies for publication on their respective websites. For these purposes, "Relevant Industry Bodies" means the International Primary Market Association (IPMA), EMTA, the Emerging Markets Creditors Association (EMCA) and the Institute of International Finance (IIF) and in each case includes any successor thereto.

(Additional language for Notices provision)

In addition, notices and other information required to be given to the Noteholders shall be given to the Relevant Industry Bodies for publication on their respective websites.

MODEL COLLECTIVE ACTION CLAUSES

FOR

SOVEREIGN NOTES

(ENGLISH LAW NOTES WITH FISCAL AGENT)

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1. Amending Note Terms and Convening Noteholder Meetings

1.1 PROVISIONS FOR NOTE CONDITIONS

Meetings of Noteholders; Written Resolutions

- (a) The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Subject to paragraph (c) below, any such modification may be made if approved by an Extraordinary Resolution. For these purposes, "**Extraordinary Resolution**" means (a) in relation to a proposal relating to any matter other than [*summarise list of Reserved Matters*] (each, a "**Reserved Matter**")¹, a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of not less than 75 per cent. of the votes cast and (b) in relation to a proposal relating to any Reserved Matter, a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement which meets the following two requirements, namely, first, the holders of not less than 85² per cent. of the principal amount of the outstanding Notes voted in favour of such resolution and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes voted against such resolution. Such a meeting may be convened by the Issuer or the Fiscal Agent and shall be convened by the Fiscal Agent (i) at any time following a Relevant Event (as defined in the Fiscal Agency Agreement), upon the request in writing of holders of not less than 5 per cent. of the aggregate principal amount of the outstanding Notes and (ii) at any other time, upon the request in writing of holders of not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting of Noteholders, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* proposals relating to any Reserved Matter may only be approved by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not

¹ It is customary to summarise the list of Reserved Matters in the Conditions so as to ensure full disclosure is made to Noteholders. However, for the sake of brevity and to avoid unnecessary repetition, in these Model Clauses the definition of Reserved Matters only appears in the definition set out below for inclusion in the definitions section of the Fiscal Agency Agreement.

² In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

less than 85³ per cent. of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

- (b) In addition, the Fiscal Agency Agreement contains provisions for the passing of resolutions in writing without the convening of a meeting of Noteholders. A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the principal amount of the outstanding Notes (in the case of a resolution in relation to a proposal relating to any matter other than a Reserved Matter) will take effect as if it were an Extraordinary Resolution. In the case of a resolution in relation to a proposal relating to a Reserved Matter, a resolution in writing which satisfies the following two requirements will take effect as if it were an Extraordinary Resolution, namely, first, it is signed by or on behalf of the holders of not less than 85⁴ per cent. of the principal amount of the outstanding Notes and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes have, by notifications in writing to the Fiscal Agent, voted against such resolution in writing during the time prescribed by the Fiscal Agent for such notifications. Any resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.
- (c) Notwithstanding paragraphs (a) and (b) above, no such modification, amendment or waiver, whether by way of Extraordinary Resolution, Written Resolution or any other means shall, without the consent of each Noteholder affected thereby, modify, amend or waive Condition [] (*Governing law, Jurisdiction, Waiver of Immunity and Service of Process*).

1.2 ASSOCIATED DEFINITIONS OF THE FISCAL AGENCY AGREEMENT

"Extraordinary Resolution" means:

- (a) in relation to a proposal relating to any matter other than a Reserved Matter, a resolution passed by a majority of not less than 75 per cent. of the votes cast at a Meeting duly convened and held in accordance with [*the Schedule to the Fiscal Agency Agreement relating to meetings*]; and

³ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

⁴ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

- (b) in relation to a proposal relating to any Reserved Matter, a resolution passed at a Meeting duly convened and held in accordance with [*the Schedule to the Fiscal Agency Agreement relating to meetings*] which meets the following two requirements, namely, first, the holders of not less than 85⁵ per cent. of the principal amount of the outstanding Notes voted in favour of such resolution and, secondly, the holders of not more than 10 per cent of the principal amount of the outstanding Notes voted against such resolution;

"Potential Event of Default" means an event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition [] (*Events of Default*) become an Event of Default;

"outstanding" means, in relation to the Notes, all the Notes other than:

[*Include relevant provisions dealing with Notes which have already been redeemed, cancelled, become void etc*]

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders or the right to vote for the purposes of a Written Resolution;
- (ii) determining whether the quorum requirement for the purposes of any meeting is satisfied;
- (iii) the determination of how many and which Notes are for the time being outstanding for the purposes of Conditions [] (*Events of Default*), [] (*Meetings of Noteholders; Modification*) and [] (*Appointment of Representative Noteholder Committee*); and
- (iv) any discretion, power or authority, whether contained in this Fiscal Agency Agreement or provided by law, which the Fiscal Agent is required to exercise in or by reference to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held or controlled, directly or indirectly, by or on behalf of the Issuer or any agency or instrumentality of the Issuer and which have not been cancelled shall (unless and until ceasing to be so held or controlled) be deemed not to remain outstanding;

⁵ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%.

"Relevant Event" means:

- (a) the occurrence of any Event of Default or Potential Event of Default; or
- (b) the receipt by the Fiscal Agent of written notice from the Issuer, or any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise);

"Reserved Matter" means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;
- (b) to change the currency in which amounts due in respect of the Notes are payable;
- (c) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution;
- (d) to amend this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";
- (e) to amend or waive the pari passu provisions of the Notes set out in Condition [] (*Status*) [*or other specified substantive covenants as appropriate, to be determined on a case-by-case basis*⁶]; or
- (f) amend or waive [the events of default or negative pledge] in such a way as to substantially deprive Noteholders of the benefit thereof;

"Written Resolution" means:

- (a) in relation to a proposal relating to any matter other than a Reserved Matter, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the principal amount of the outstanding Notes; and
- (b) in relation to a proposal relating to a Reserved Matter, a resolution in writing which satisfies the following two requirements, namely, first, it is signed by or on behalf of the holders of not less than 857 per cent. of the principal amount of the

⁶ Insert appropriate references to particular numbered Conditions of the Notes.

⁷ In compelling circumstances in the context of a predominantly retail distribution, it may be appropriate to reduce the applicable percentage, but not below 75%

outstanding Notes and, secondly, the holders of not more than 10 per cent. of the principal amount of the outstanding Notes have, by notifications in writing to the

Fiscal Agent, voted against such resolution in writing during the time prescribed by the Fiscal Agent for such notifications, in each case whether contained in one document or several documents in like form, each signed by or on behalf of one or more such holders of the Notes.

1.3 ADDITIONAL PROVISIONS OF THE FISCAL AGENCY AGREEMENT

Extraordinary Resolution binds all holders

An Extraordinary Resolution shall be binding upon all Noteholders, whether or not present at such Meeting, and each of the Noteholders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given to the Noteholders and the Paying Agents (with a copy to the Issuer) within 14 days of the conclusion of the Meeting or completion of the procedures for a Written Resolution.

Form of Resolution for Reserved Matters

Any resolution associated with a proposal relating to any Reserved Matter or any proposal for the purposes of appointing a representative Noteholders committee following a Relevant Event (in each case, whether submitted to a vote at a duly convened meeting of Noteholders or submitted to Noteholders in writing) shall provide Noteholders with the opportunity to consent or object thereto by permitting the casting of an affirmative or negative vote.

Written Resolution

A Written Resolution shall take effect as if it were an Extraordinary Resolution.

2. APPOINTMENT OF REPRESENTATIVE NOTEHOLDER COMMITTEE

(Additional Provision for Fiscal Agency Agreement)

At any time following a Relevant Event,^{*} the Noteholders may, by notice in writing to the Fiscal Agent from, or a resolution passed by the affirmative vote of, the holders of more than 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any persons as a committee to represent the interests of the Noteholders; *provided, however, that* no such appointment shall be effective if the holders of more than 25 per cent. of the principal amount of the outstanding Notes have either (a) by notifications in writing to the Fiscal Agent objected to such appointment during the time prescribed by the Fiscal Agent for such notifications or (b) voted against such resolution. Such committee, in its discretion, may, among other things (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings and (iii) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

^{*} See Model Clause 1 and associated definitions for definition of "Relevant Event".

3. Collective Acceleration and de-Acceleration

(To be included in Events of Default Provision in Note Conditions)

If any Event of Default* occurs and is continuing, then the holders of not less than 25 per cent. in aggregate principal amount of the Notes then outstanding may, by notice in writing to the Issuer or to the specified office of the Fiscal Agent, declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

If the Fiscal Agent receives written notifications from holders of not less than 75 per cent. in aggregate principal amount of the Notes then outstanding to the effect that the Event of Default or Events of Default giving rise to the above mentioned declaration of acceleration is or are cured following such declaration and that such holders request the Fiscal Agent to rescind such declaration, the Fiscal Agent shall, by notice in writing to the Issuer and the Noteholders, rescind such declaration whereupon it shall be rescinded and shall have no further effect. No such rescission shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

* The precise definition of Event of Default will be set out in the Condition of the Notes dealing with the Events of Default.

4. **FINANCIAL AND OTHER INFORMATION**

(Additional Provision for Note Conditions)

(a) ***SDDS Reporting***

So long as any of the Notes remains outstanding, the Issuer shall maintain its subscription to and fully comply with the SDDS[; *provided, however, that*, if the Issuer does not, at the date of issuance of the Notes, subscribe to the SDDS, then it shall subscribe to and fully comply with the SDDS no later than [*third anniversary of the Issue Date*]].

For these purposes:

- (i) "SDDS" means the Special Data Dissemination Standard established by the International Monetary Fund as in effect from time to time; and
- (ii) any matter which the SDDS specifies as being encouraged (rather than mandatory) shall be regarded as being mandatory.

(b) ***Rolling 12 Month Forecasts***

So long as any of the Notes remains outstanding, the Issuer shall prepare and publish (in the same manner in which data required under the SDDS needs to be published), no later than [10] business days after each Quarter Day in each year, the following:

- (i) a 12 month projection (prepared as from such Quarter Day) in respect of each of those aspects of the central government budget which are required to be produced on an actual basis under the SDDS; and
- (ii) a 12 month projection (prepared as from such Quarter Day) in respect of each of the inflation figures which are required to be produced on an actual basis under the SDDS;

provided, however, that, if the Issuer does not, at the date of issuance of the Notes, subscribe to the SDDS, then the above-mentioned projections shall be required as from the earlier of (x) the first Quarter Day to fall after the Issuer does subscribe to the SDDS and (y) the first Quarter Day to fall after [*third anniversary of the Issue Date*].

For these purposes "**Quarter Day**" means, in relation to a year, 31 March, 30 June, 30 September and 31 December of that year.

(c) ***Other Information***

So long as any of the Notes remains outstanding, the Issuer shall provide the following information in reasonable detail no later than [10] business days after agreement on the applicable arrangements (or in the case of paragraph (v) below, no later than [10] business days after the request from the Fiscal Agent), namely:

- (i) the terms of any agreed minute, procès verbal or other similar record of agreed Paris Club arrangements relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies (and shall ensure that the stock of affected debt and applicable rescheduling terms are described);
- (ii) the terms of any bilateral agreement entered into pursuant to a Paris Club arrangement relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies (and shall ensure that the stock of affected debt, interest terms and other applicable rescheduling terms are described);
- (iii) corresponding information to that described in (i) or (ii) above in relation to restructuring arrangements (whether by amendment, exchange offer or otherwise) relating to any indebtedness (whether by way of guarantee or otherwise) of the Issuer or any of its agencies with any other creditor or creditors not participating in Paris Club arrangements where the aggregate amount of affected indebtedness exceeds U.S.\$[] (or its equivalent in any other currency or currencies);
- (iv) the terms of any standby, extended funds or similar facility settled between the Issuer, its government or any ministry of the Issuer and the International Monetary Fund (including a copy of any related technical memorandum); and
- (v) such other information as the Fiscal Agent (acting at the instruction of holders of not less than 5 per cent. of the aggregate principal amount of the outstanding Notes) may from time to time reasonably request.

All such information shall be provided to the Fiscal Agent and to each of the Relevant Industry Bodies for publication on their respective websites. For these purposes, "**Relevant Industry Bodies**" means the International Primary Market Association (IPMA), EMTA, the Emerging Markets Creditors Association (EMCA) and the Institute of International Finance (IIF) and in each case includes any successor thereto.

(Additional language for Notices provision)

In addition, notices and other information required to be given to the Noteholders shall be given to the Relevant Industry Bodies for publication on their respective websites.

A Code of Conduct for Emerging Markets

Background

Recent debate has focused on legal approaches to managing crises in emerging markets. Specifically, alternative approaches have been advanced to facilitate the restructuring of external debt in cases where a sovereign's debt is considered unsustainable. The private sector has proposed marketable collective action clauses (CACs) as part of a market-based approach, while many in the official sector have advocated a "two track" approach, including both collective action clauses and a sovereign debt restructuring mechanism (SDRM) that would override current legal frameworks in all IMF member countries.

While the aim of each of these approaches would be to facilitate the process of restructuring sovereign external debt only in a limited number of cases, neither would, by itself, strengthen crisis prevention, promote a renewal of capital flows or facilitate the resolution of related problems involving domestic debt, private sector debt or debt extended by bilateral and multilateral agencies.

By contrast, this Code of Conduct represents a more comprehensive approach to strengthening the framework of emerging markets finance, including -- but not limited to -- debt restructuring when debt levels have become unsustainable. This approach rests on the premise that all participants, whatever their roles and responsibilities, share a basic interest in promoting greater financial stability and growth in emerging markets. It reaffirms a commitment by all parties to strengthened crisis prevention, promotes debtor-creditor consultations before problems become unmanageable, and envisions the incorporation of marketable clauses in sovereign bond contracts that could help to make the restructuring process more flexible. Furthermore, this approach explicitly recognizes that market participants accept full responsibility for their investment and lending decisions in emerging markets and that they do not expect "bail outs" from the official sector. This approach also takes into consideration the issue of aggregation of voting rights and addresses this through proven market practices on a case-by-case basis.

Unlike mechanisms that concentrate exclusively on debt restructuring and become relevant only following a financial crisis, when severe losses in output and growth have already occurred, this approach is pro-active and growth-oriented. It seeks to avoid debt restructurings where still possible, facilitate them where necessary, and in all cases restore early market access.

A Code of Conduct

Toward that goal, the following principles should guide the actions of parties in emerging markets finance and provide a framework for their behavior. Parties adhering to this Code of Conduct agree however, that the Code of Conduct is only a guideline for their actions and that none of its provisions has, or should be given, any legal effect as a matter of contract, comity or otherwise.

I. Crisis Prevention Phase

Sound policies, structural reforms, transparency, adherence to standards and codes, rule of law, sound risk management, and IMF surveillance and are all essential parts of crisis prevention. Six particular points, however, are worth emphasizing:

1. Properly functioning capital markets are built on the mutual expectations created by the rule of law and by the basic principle that, whether or not they choose to enforce their rights, all market participants are entitled to performance of their contracts in accordance with their terms. Policies, attitudes, and institutions that support and tend to give effect to these basic principles are essential and must consistently be encouraged and strengthened.
2. Thorough analysis and sound risk management by investors/creditors can minimize the risks of contagion, especially when coupled with robust investor relations programs by debtors. IMF lending decisions should be supportive of such efforts.
3. Market-based exchange rate regimes can be an important ingredient in facilitating adjustment without crises, especially with a foundation of sound fiscal and monetary policy.
4. Consideration should be given to the development of a central database of sovereign borrowing which is accessible to all market participants. Such a project could be based on the current IIF database, perhaps in collaboration with the IMF.
5. The voluntary inclusion of marketable collective action clauses in bond documentation, in the context of market-oriented transactions, should be encouraged at all times. As designed, these clauses will enhance transparency and thereby strengthen crisis prevention, as well as facilitate orderly debt restructuring where necessary. Greater transparency in the documentation of bond issues generally, for example by supplementing existing IPMA summary disclosure guidelines with a proposed checklist of key bond provisions, would also help to promote crisis prevention.
6. Sovereign debtors should subscribe to and comply with the IMF's Special Data Dissemination Standard.

A comprehensive approach to strengthening crisis prevention is an integral part of this Code of Conduct. The essential elements of such an approach are set forth in the Appendix.

II. Crisis Management Phase

(A) Sovereign debtors should:

1. Take strong measures aimed at stabilizing the macroeconomic environment, revitalizing structural reform, and laying the basis for renewed growth. It is vital that political support for these measures be developed.
2. Work with the IMF to strengthen policies, obtaining IMF financial and programmatic support as appropriate as part of a process of restoring growth and market access.
3. Engage in an early and intensified dialogue with key investors and creditors to help determine approaches most likely to rebuild market confidence, making use of an advisory group comprised of leading private sector emerging market participants that would give way to a country-specific creditor group in cases where restructuring cannot be avoided. In particular at a very early stage of potential financial difficulties, pro-active liability management in consultation with market participants could play an effective role in promoting market confidence. In this connection, the sovereign should consider ways to limit the potential spillover effect on the country's private sector external obligations.
4. Avoid measures that would violate the rights of foreign or domestic investors, preserving an open investment environment that respects investment rights, and avoiding exchange controls on non-residents except for temporary periods in exceptional circumstances. In this connection, authorities should acknowledge the deleterious effect of resident capital outflows and work toward making domestic investment more attractive.
5. In connection with a preliminary determination by the debtor that debt restructuring may be needed,
 - (a) Take appropriate steps to establish a sound foundation for a consensual approach toward avoiding or resolving its financial crisis, such as retaining international financial and legal advisors, initiating contact with any creditor committee in formation, and consulting with key creditors before any payments are missed in order to explore alternative market-based approaches to addressing debt-service problems (such as voluntary roll-over requests or debt exchanges).

- (b) If debt restructuring becomes unavoidable, identify officials responsible for consulting with creditors and engage in a constructive process of regular dialogue and meetings with representatives of bondholders and other key creditors, ensuring mutual understanding of unfolding events and a continuous exchange of views.
- (c) Negotiate promptly, in good faith, and directly with a broadly representative group of creditors (including bondholders) the terms of any proposed restructuring. In connection with any such restructuring discussions, the reasonable costs of such creditor group's financial and legal advisors should be borne by the sovereign debtor.
- (d) Disclose to all creditors details regarding all outstanding financial obligations, including proposed treatment thereof.
- (e) Disclose fully all bonds and loans owned or controlled, directly or indirectly, by the sovereign and ensure that such obligations are not voted in respect of such restructuring.
- (f) Disclose fully to its investors/creditors central aspects of its economic policies and programs, including all assumptions, commitments, and targets involved in any IMF-supported program.
- (g) Avoid discriminating among creditors based on domicile, currency, maturity, or type of entity.
- (h) Seek a comparable rescheduling from all official bilateral creditors.
- (i) Seek to maintain debt service during negotiations as a sign of good faith and, to the extent necessary, resume full payment of all principal and interest as soon as possible.
- (j) Before announcing the final terms of any such debt restructuring (whether by amendment, exchange offer, or otherwise), engage in constructive negotiations with bondholders and other key creditors; and avoid any coercion of creditors by impairing existing bond and loan provisions.
- (k) Ensure that contractual rights remain fully enforceable throughout the negotiating and restructuring process.

(B) Market Participants should:

1. Participate in an active dialogue with sovereign debtors in support of their effort to rebuild market confidence and access.
2. Accept full responsibility for their investment and credit decisions in emerging markets, with full recognition that creditors should bear the consequences of their decisions in order to reinforce market discipline.
3. Recognize that IMF decisions on lending to debtor countries should be consistent with IMF access policies determined by its members that involve firm limits on access, with flexibility only for exceptional circumstances, and should be based primarily on considerations relating to the country and the global financial system.
4. As part of an effort to avoid a broad-based restructuring of sovereign debt:
 - (a) Commercial banks and investment houses should consider participation in a voluntary, industry-wide, temporary maintenance of trade and inter-bank advances in the context of continued debt service and strong performance under a convincing policy framework supported by an IMF program; consider requests to roll over short-term claims on public and private sector borrowers in the same context.
 - (b) Holders of marketable instruments such as bonds can help minimize undue contagion and support the sovereign's reform efforts and economic performance by consistently evaluating investments on their merits; and consider requests to roll over short-term maturities in the same context as 4. (a).
5. Take appropriate steps to establish a sound foundation for a consensual approach toward avoiding or resolving a sovereign financial crisis, such as endeavoring to collect and disseminate creditor contact data and to begin the process of forming a representative creditor committee, considering the appropriate time to engage legal and financial advisors, initiating contact with representatives of the sovereign and of the official sector, and setting up a communications link to the broader creditor community. Creditor committees should adopt internal rules and practices to guide their activities and be prepared to function effectively in coordinating across instruments, with other creditor classes and with the official sector.
6. Should the debtor seek a restructuring, creditors should:
 - (a) Engage in regular consultations with the debtor in order to exchange information and to consider the best means of promptly restoring market access.

- (b) Work with other creditors and the debtor to finalize a broadly representative creditor committee as soon as reasonably practicable after the debtor indicates its intent to seek a debt restructuring (say 60 days). Such a committee should provide a forum for the debtor to present its economic program and financing proposals and should be staffed sufficiently to collect and analyze economic data and to evaluate, disseminate and gather creditor input with respect to such financing proposals, as well as to negotiate and disseminate a definitive proposal and administer a voting process.
- (c) Engage in good faith negotiations with the debtor over the terms of a restructuring.
- (d) Endeavor that enforcement action against the debtor or its assets (such as declaring cross-defaults and accelerating principal, as well as bringing law suits and foreclosing on collateral) is taken only as deemed necessary to preserve and protect asset values and contract rights.

(C) The IMF and the G10 should:

1. Support and encourage policies and actions by sovereign debtors that are consistent with the Code of Conduct.
2. Provide policy advice and, if consistent with the IMF Articles and access policies, temporary balance of payments financing in support of a strong, bold economic program designed to foster macroeconomic stabilization and lay the basis for renewed growth and job creation.
3. Vigorously support all efforts to avoid default and a comprehensive restructuring, including informal approaches to regaining market stability. In this connection, assiduously avoid any appearance of encouraging a debtor to default.
4. Disburse financing to the debtor during an event of default only if following consultations with creditors it determines that the country is negotiating in good faith directly with its external creditors and endeavoring to maintain debt service payments to creditors on an equitable basis.
5. Support restructuring of the full range of bilateral credit on a basis broadly comparable to the restructuring of the private claims.

6. Approve exchange controls only on a temporary, exceptional basis and as part of an initial phase of a bold reform program.
7. Engage in meaningful consultations with key private creditors regarding the best means of preserving and protecting asset values and contract rights during the restructuring process and the most effective approach to restoring market access. Confidential and sensitive information that might arise during the course of negotiation with debtors would, of course, be carefully guarded.
8. Suspend any disbursements to a country that has violated the basic rights of foreign investors or creditors.

III. Monitoring Arrangements

A Joint Monitoring Group (JMG) should be established to monitor all matters relating to this Code of Conduct. The JMG would consist of a small number of representatives of issuing countries, creditor countries, private investors and creditors, the IMF, and the BIS, who would meet from time to time as appropriate in order to review such matters. The JMG could be consulted by any party regarding any aspects of compliance or non-compliance with this Code of Conduct.

Essential Ingredients of a Comprehensive Approach for Strengthening Crisis Prevention

Since the Mexican crisis in 1995, numerous measures have been put in place to strengthen the global financial system, mitigate the probability of financial crises in emerging markets and limit their impact as they arise. The private and the officials sectors have worked both in parallel and collaboratively to identify key principles as well as specific measures that would reduce vulnerabilities while building market access. Moreover, approaches have been outlined for how emerging market authorities should respond to signs of eroding market confidence.

Pursuit of sound macroeconomic policies, including appropriate exchange rate policies and prudent liability management, as well as persistent implementation of structural reforms remain the keystones of crisis prevention. In this connection, it is crucial that the government secures political support for its policy program and commits to apply the “rule of law” in order to provide investors and creditors both domestic and foreign with a favorable investment climate.

The Financial Stability Forum (FSF) has developed a Compendium of Standards, which in the area of macroeconomic policy calls on emerging market economies to comply with:

- Monetary and Financial Policy Transparency: guided by the Code of Good Practices on Transparency in Monetary and Financial Policies issued by the IMF. The code identifies desirable transparency practices for central banks in their conduct of monetary policy and for central banks and other financial agencies in their conduct of financial policies.
- Fiscal Policy Transparency: guided by the Code of Good Practices on Fiscal Transparency issued by the IMF. The code contains transparency requirements to provide assurances to the public and to capital markets that a sufficiently complete picture of the structure and finances of government is available so as to allow the soundness of fiscal policy to be reliably assessed
- Provision of comprehensive, frequent, timely, and accurate data to market participants is crucial for sound risk management. While significant progress has been made in recent years, gaps remain in the timely availability of meaningful data. In their newly developed model bond clauses, the private sector calls on countries with access to international capital markets to implement the IMF data standard (SDDS) in its “encouraged” version, which is nearly identical to stricter IIF data standards. The latter has in particular established more rigorous dissemination on data for international reserves and external debt and debt service.

Weak financial systems have too often been at the center of broader economic crises. Although some progress has been made, emerging market policy makers and

market participants should give priority to developing domestic capital markets, building credit cultures, improving risk management systems, advancing consolidation, and forcing corporate restructuring. To strengthen the ability of market participants to assess financial sectors, the IMF or country authorities should announce on their web sites in a timely manner when a country has decided to participate in the IMF/World Bank Financial Sector Assessment Program (FSAP). Moreover, all countries should publish the results shortly after completion.

In support of stronger financial systems, the FSF Compendium calls on emerging market to upgrade financial regulation and supervision. Adherence to these standards is reviewed as part of the FSAP exercise. All emerging market economies should aim toward their timely implementation:

- Banking Supervision: guided by the Basel Committee on Banking Supervision's (BCBS) Core Principles for Effective Banking Supervision.
- Securities Regulation: guided by the Objectives and Principles of Securities Regulation, issued by the International Organization of Securities Commissions (IOSCO), upon which the regulation of securities markets is based.
- Insurance Supervision: guided by Insurance Core Principles, issued by the International Association of Insurance Supervisors (IAIS), which comprise essential principles that need to be in place for an insurance supervisory system to be effective.

To advance the implementation of structural reforms while reducing vulnerabilities, both private and official sectors have established best practice guidelines in a number of areas. It is important that countries commit to implementing these standards and work with the official community as well as market participants to ensure compliance as soon as possible. To ensure greater transparency, mechanisms to measure the implementation of these standards should be encouraged.

- Insolvency: The World Bank is coordinating a broad-based effort to develop a set of principles and guidelines on insolvency regimes. The United Nations Commission on International Trade Law (UNCITRAL), which adopted the Model Law on Cross-Border Insolvency in 1997, will help facilitate implementation.
- Accounting: 41 International Accounting Standards (IAS) have been issued to-date by the International Accounting Standards Board (IASB) and approved by the Board of the International Accounting Standards Committee (IASC Board.)
- Auditing: International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) contain basic principles and essential procedures together with related guidance in the form of explanatory and other material.

- Payment and Settlement: guided by the Core Principles for Systemically Important Payment Systems issued by the Committee on Payment and Settlement Systems (CPSS) and the Recommendations for Securities Settlement Systems issued by the CPSS-IOSCO Joint Task Force on Securities Settlement Systems.
- Market Integrity: guided by the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering combined with its 8 Special Recommendations on Terrorist Financing.

The IIF's Code of corporate governance formulates best practice principles from an investor's perspective that provides practical guidelines for governments, regulators, stock exchanges and companies. The aim of the Code is to help reinvigorate portfolio investment flows to emerging markets while also contributing to financial market depth, performance and stability. The OECD has developed more comprehensive Principles of Corporate Governance aimed at improving the legal, institutional, and regulatory framework for corporate governance in OECD and non-OECD countries. All emerging market economies should make improvements in corporate governance a top priority and work closely with market participants toward that goal.

Sustained investor relations programs can help build market access at attractive terms during good times and sustain vital support at times of market volatility. All countries with access to international capital markets should have effective investor relations programs. Information and possibly evaluation of investor relations programs should be included in bond prospectuses and rating comments, based on minimum standards and "best practices" for such programs. In addition, IMF programs should include performance on investor relations by member countries.

The IMF's contingent credit lines (CCL) could be a useful crisis prevention tool if means are considered to make it more user-friendly through, for example, the inclusion of *ex ante* approval of a small group of eligible countries (perhaps in the context of Article IV consultations) and assurance of automatic access for countries when needed.

EMERGING MARKET SOVEREIGN BOND DOCUMENTATION CHART

A. Checklist.

Governing Law?	NY <u>[Y or N]</u>	ENG <u>[Y or N]</u>	Other <u>[What?]</u>
Submission to Jurisdiction?	NY <u>[Y or N]</u>	ENG <u>[Y or N]</u>	Other <u>[What?]</u>
Waiver of Immunities?	<u>[Y or N]</u>		
Trustee or Fiscal Agent?	<u>[T or FA]</u>		
Sharing Clause?	<u>[Y or N]</u>		
Negative Pledge?	<u>[Y or N]</u>		
Pari Passu?	<u>[Y or N]</u>		
Financial Covenants?	<u>[Y or N]</u>		
If so, what type of clause?	<u>[]</u>		
Other Material Covenants?	<u>[Y or N]</u>		
SDDS Reporting?	<u>[Y or N]</u>		

% Vote for Waiver/Amendment of:

Payment Terms	<u> </u> %
Governing Law	<u> </u> %
Submission to Jurisdiction	<u> </u> %
Waiver of Immunities	<u> </u> %
Negative Pledge	<u> </u> %
Financial Covenants	<u> </u> %
Reporting	<u> </u> %

Voting Calculations:

(1)	Disqualification of Issuer-Controlled Bonds?	<u>[Y or N]</u>
(2)	Is Denominator based on:	
	Total Outstandings?	<u>[Y or N]</u>
	Quorum?	<u>[Y or N]</u>

If quorum:

What % of Total Outstandings? [_____%]

Is it reduced

for adjourned mtgs? [Y or N]

If so, to what %? [_____%]

(3) Voting by Written Consent? [Y or N]

% Vote for Acceleration -----%

% Vote for Rescission -----%

Individual Right of Action [Y or N]

If not, what % to
authorize enforcement? [-----%]

[Covenant to Comply with
Code of Best Practices?] [Y or N]

Grace Period for Non-Payment of Interest [# of days]

Cross-Default? [Y or N]

Cross-Acceleration? [Y or N]

B. Process.

(1) Submitted before launch by Issuer/Lead Underwriter

(2) Published by IPMA/EMTA/EMCA

(3) Bond Documents Lodged with IPMA/EMTA/EMCA

(4) Prospectus/Launch Telex to Reference

(5) Any Failure to Comply to be Noted

CREDIT BAROMETER FOR EM SOVEREIGN BONDS

Emerging Market investors will accept making bonds easier to restructure only if, at the same time, greater efforts are made to ensure that making them easier to restructure does not simply result in their default and/or restructuring becoming more likely. Accordingly, bonds with collective action clauses should at a minimum be designed to include greater assurance and/or barometers of creditworthiness and early warning of potential credit difficulties.

In appropriate cases (e.g., in the context of Bonds issued as part of a negotiated restructuring), stronger financial or other covenants should be considered.¹

However, in most cases, such assurance/barometer could take the form of better disclosure, where not currently made, of key economic/financial indicators to be developed either generically (if that is possible) or on a case-by-case basis, as well as a charting system for key bond clauses. While making the right set of leading indicators more readily available to the market should not be seen as a substitute for the analysis of more comprehensive underlying economic data, it would help provide a common starting point for Emerging Market investors and policymakers in identifying specific country situations which, if untreated, could lead to credit deterioration or eventually develop into a crisis. Given greater visibility, the appropriate set of leading indicators would help focus greater attention on a country's economic and financial health and on the need to address certain underlying economic and financial issues. These same leading indicators could also demonstrate (albeit, also in an over-simplified way) improvements in a country's creditworthiness.

A. Sample indicators may include:

- (1) Interest Payments as a % of Tax Revenues
- (2) Short-Term Debt as a % of Reserves
- (3) Current Account Balance as a % of GDP
- (4) Total Debt as a % of GDP
- (5) External Debt as a % of GDP
- (6) External Debt as a % of Exports

Others Possible Indicators:

Performance

- (1) Real GDP (% change)
- (2) 12-month Inflation Rate (% change)

¹ In this connection, EMCA has separately endorsed a set of NY-style Model Covenants (published at www.emcreditors.com/pdf/model_covenants.pdf), which, in addition to collective action clauses, contain a number of examples of substantive covenants.

External Liquidity & Liability

- (1) Reserve levels (excluding gold)
- (2) Import Cover (in months)
- (3) Short-Term Debt as a % of Total Debt

- (4) Debt Service Ratio

Policy Indicators

- (1) Fiscal Balance (% of GDP)
- (2) Domestic Credit Growth (% annual)
- (3) Domestic Debt (% of GDP)
- (4) Real Effective Exchange Rate (average 1995 = 100)

II. Some Analysis

Significance of Indicators

Interest Payments as a % of Tax Revenues -- One indicator of ability to meet debt service obligations on an on-going basis.

Short-Term Debt as a % of Reserves -- Indicator of reserve adequacy, particularly for countries with some (but uncertain) access to external capital markets.

Current Account Balance as a % of GDP -- Key component of balance of payments representing flow measure of external activity.

Total Debt as a % of GDP -- May indicate overall capacity of economy to meet external debt obligations.

External Debt as a % of Exports -- Similarly, an indicator of overall capacity to service external debt obligations.

Real GDP (% change) -- Primary measure of overall economic equilibrium and of potential pressure on exchange rate.

12-Month Inflation Rate (% change) -- Indicator of economic equilibrium and of potential pressure on exchange rate.

Import Cover -- Useful measure of reserve needs, particularly for countries with limited access to external capital markets.

Short-Term Debt as a % of Total Debt -- Shows debt profile as indicator of impending liquidity needs.

Debt Service Ratio -- Traditional cash flow measure relating principal and interest obligations to potential sources of FX.

Fiscal Balance (% of GDP) -- Measures public sector Financing needs in relation to overall economic activity.

Domestic Credit Growth (% annual) -- An indicator of domestic financial conditions with implications for inflation and exchange rate.

Domestic Debt (% of GDP) -- Indicates, particularly where domestic debt is predominant, capacity to service this debt.

Real Effective Exchange Rate -- Indicator of currency valuation and competitiveness, with implications for claims on resources to service external debt.

Indicators (such as those above) have been used with varying degrees of success in evaluating economic performance and predicting the evolution into financial crises. Which specific indicators to use may depend on such factors as the specific type of crisis to be anticipated or the time horizon of its occurrence. Different investors may have their own different needs, and there are obvious limitations in attempting to over-simplify the inherently complex and uncertain process of economic analysis and crisis prediction and prevention.

The above indicators can generally be calculated from SDDS data (though there is a specific difficulty in deriving the face value of external debt), but most of them are not readily available to the marketplace.

The calculation and dissemination of a common set of indicators (which could, but need not, be common across all EM countries) may be more efficient for certain investors and would not preclude (and, in fact, could invite) more individualized analysis. The key advantage of a common set of indicators would be the greater visibility given to them, as a means of better focusing attention on the underlying economic factors and their implications for the country's economic and financial health.

As a general matter, the above indicators are already calculated by the IIF from SDDS data as part of its on-going monitoring effort.

In addition to the various issues noted below, consideration should be given to whether the credit barometer concept should be linked to investor relations programs or other mechanisms involving consultation between EM countries and the private financial community.

C. Process/TBD

- (1) Which Indicators would be the most useful?
- (2) Published How Often?
- (3) Published with What Time Lag for Data?
- (4) Calculated by Whom?
 - Country
 - IMF
 - IIF
- (5) Published by Whom?
 - Country
 - IMF
 - IIF
 - EMTA/EMCA/IPMA
- (6) Any Failure to Comply to be Noted

As a next step, the investor community and other market participants should be consulted to help define the most appropriate set of indicators and how they can best be used to bring maximum value to the marketplace.