



The Sovereign Debt Forum (SDF): Expanding our Toolkit for Handling Sovereign Crises

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Agenda

- I. Context: what is the problem?**
- II. An SDF: what, why, when, how?**
- III. Optimizing debt workouts: key principles**
- IV. Main elements of an SDF**
- V. Limits of the SDF**
- VI. Links with complementary approaches**
- VII. Next steps**

I. Problem: too little, too late

Costs to addressing sovereign distress:

1. Ex ante
2. In media res
3. Ex post

Not too much restructuring, too soon.

Reality: too little, too late.

Three major connected issues to address:

1. Overlending & overborrowing
2. Incentives to delay addressing insolvency
3. Tendencies toward insufficient restructuring in current approach

Need to lower cost of restructuring & preserve value

I. TLTL: Post-SDRM *status quo* doesn't work

- **Non-system does not optimize outcomes**
- **Each crisis requires reinvention, delays, *ad hoc-ery***
- **Information flow is too slow, limited, asymmetric**
- **Increased use of CACs helpful, but can only do so much:**
 - They facilitate inter-creditor coordination
 - But they are reactive, no proactive
 - Do not bring together stakeholders early to find solutions
 - CACs are not a restructuring/bankruptcy regime
- **Greece 2012 is not a model**
- **Lessons from private debt restructuring:**
 - Clear, transparent process leads to faster deals with greater preservation of value

I. 7 Specific Problems to Address

Ex ante

- Lack continuous effort to refine processes of dealing with distressed sovereigns
- Lack venue to bring creditors and debtors together proactively

In media res

- Lack an automatic standstill mechanism
- Creditor moral hazard

Ex post

- CACs are being circumvented
- Pari passu thrown in doubt
- Payment systems vulnerable

II. An SDF: What is it?

Sovereign Debt Forum (SDF):

- Non-statutory, non-institutional, uncodified body
- Neutrality in practice, venue and staff for standing discussion of surveillance, incipient crises, and, when necessary, debt treatments
- Transparent analysis of DSA, capacity to pay
- Fair, balanced, and comprehensive representation
- Dovetails with existing IMF and Troika processes.

II. Why an SDF?

Light:

- Paris Club shows this type of ‘non-institution’ can be effective

Pragmatic:

- No political support for treaty- or statutory-based approaches

Complementary:

- Enhances existing processes and institutions

Supportive:

- Would aid other incremental improvements to the current approach to debt restructuring
- Reduce trigger problem
- Dampen political & creditor pressure on IMF

Fills gap

- Dedicated to proactive treatment of sovereign financing issues

II. An SDF: When?

Before 2008 crisis

- 2002–03: SDRM discussions fail
- 2003: Wider introduction of CACs
- 2003–08: No demand for restructuring framework

After 2008 crisis

- 2010: Greece program; Merkel/Sarkozy - Euro SDRM
- 2011: European CACs, EFSF/ESM, Greek debt exchange
- 2012: Greek buyback
- 2013: Cyprus... further sovereign financing issues?
Argentina: reopening of *pari passu*

Now:

- Crisis stabilized, can work on improving system
- Failure of Greek CACs, exposure of NY payments system to holdouts by NML vs Argentina implies status quo not a sustainable equilibrium

II. An SDF: How do we do it?

Creation

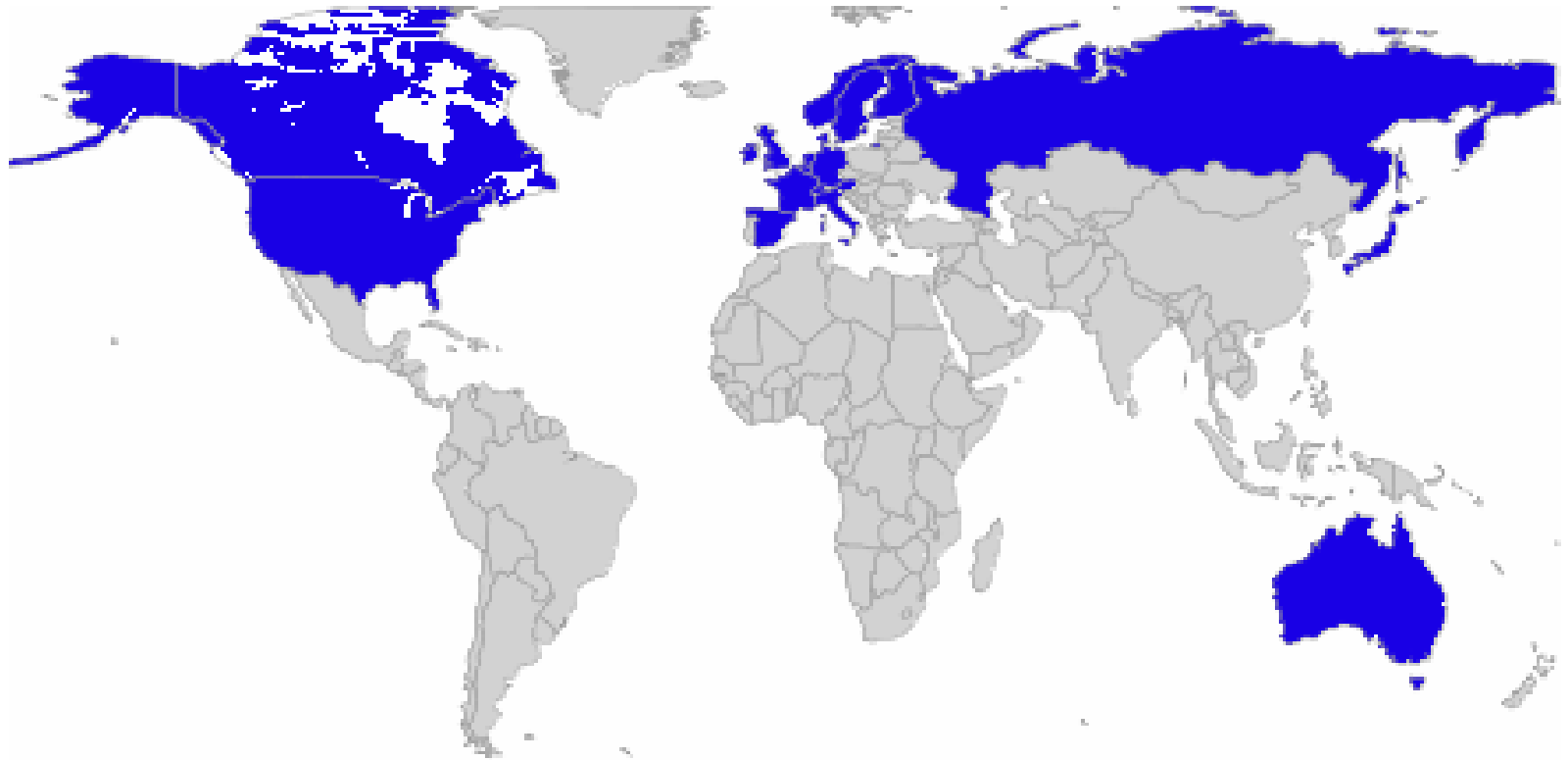
- Incorporate as nonprofit organization
- Informal secretariat at existing public institution
- Expand existing body such as Paris Club (which has already initiated some outreach to new members)
- Create stand-alone unit at IMF or BIS

Initiation

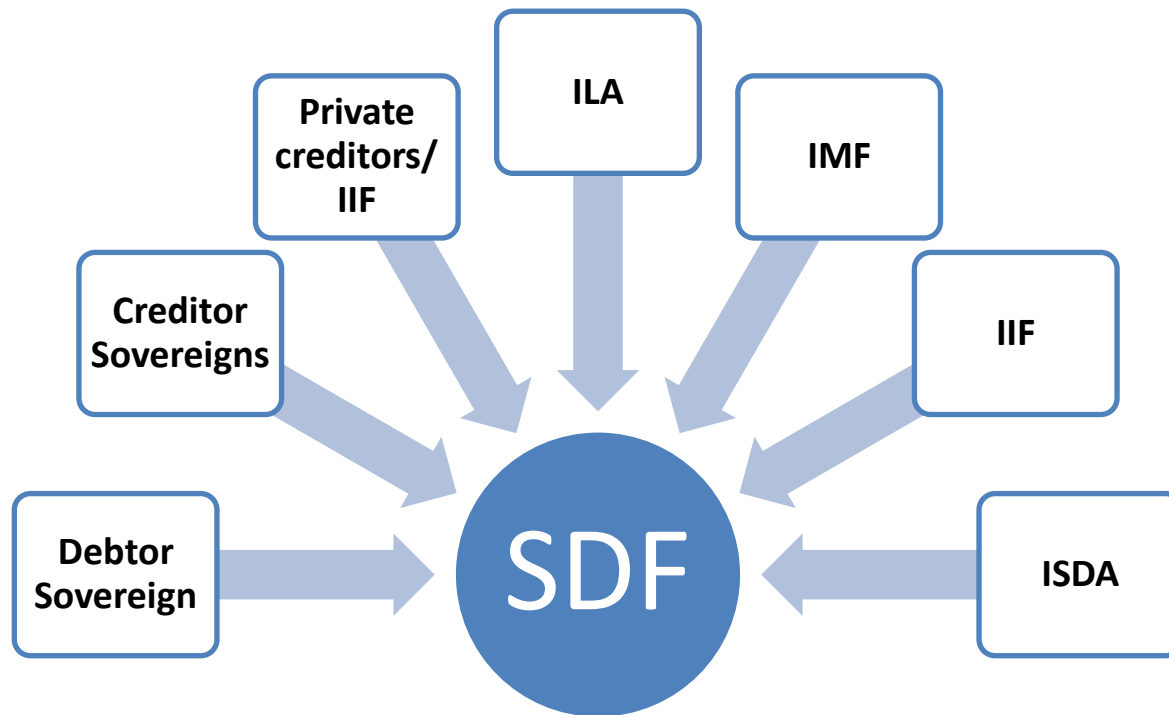
- Weave into IMF and/or European surveillance process
- Assists in facilitating next sovereign workout

II. Expand on PC

Paris Club permanent membership



II. More inclusive membership



III. Optimizing debt workouts

Key objectives: end too little, too late

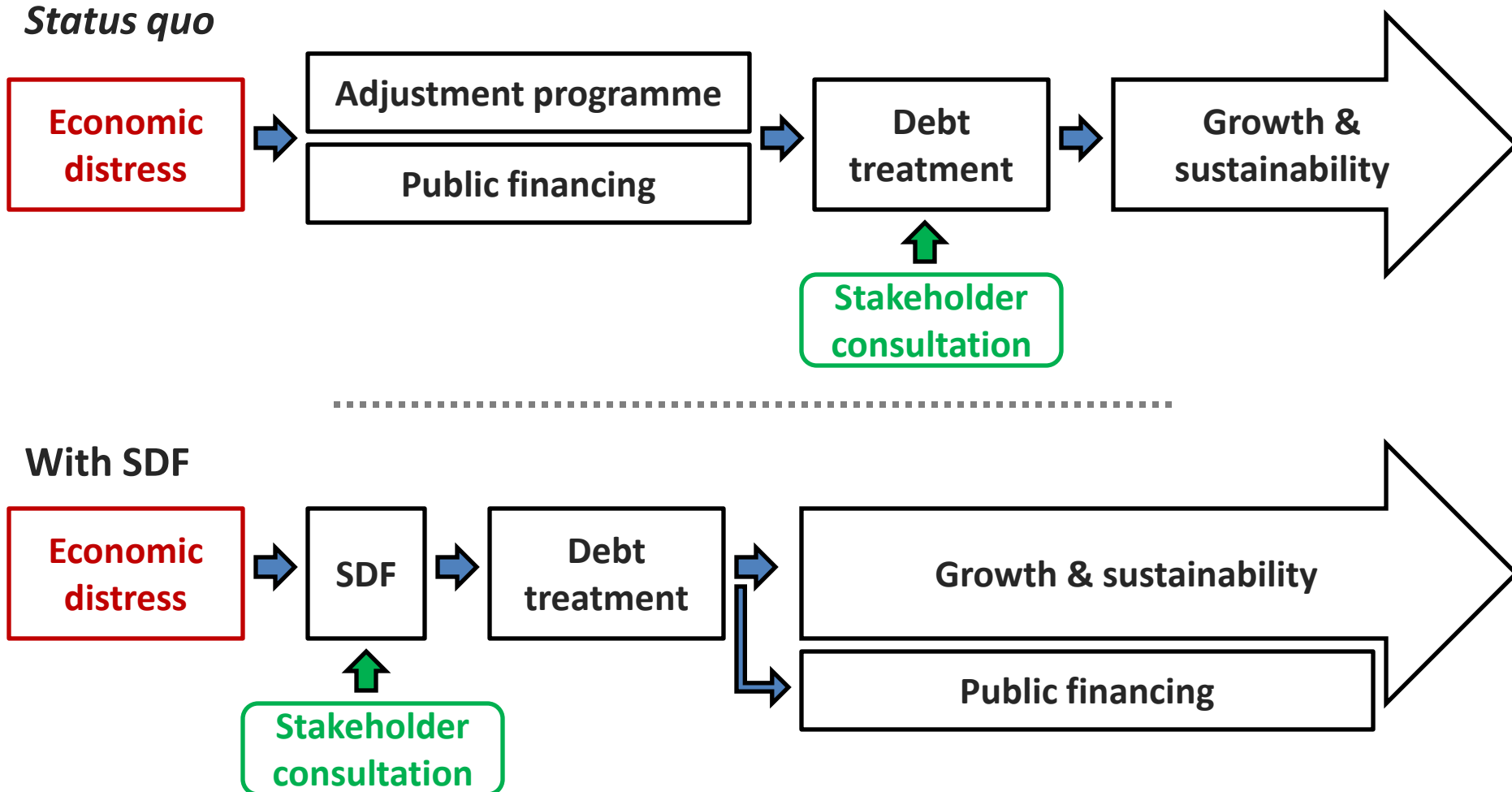
- Provide incentives to reduce overlending & overborrowing
- Reduce burden of restructuring on official sector
- Ensure debt treatment sufficient for sustainability
- Dampen the ‘trigger problem’ through standing discussions
- Incentive compatible
- Reduce incidence of holdouts

III. Lessons from corporate debt

Lessons from corporate debt workouts

- Early action
- Proactive, informal, confidential discussions
- Need space to design solutions out of public glare
- Key constituents well organized for negotiations
- Payment standstills important
- Information symmetry amongst constituents
- Respective understanding of each party's leverage
- Clear understanding of collateral/spillover effects

IV. Main feature: early consultation



IV. SDF operations

- **Speedier execution, with predictability, precedent**
- **Constituent committees and advisory groups**
- **Discussions: macro prgm, DSA, capacity to pay**
- **Enhanced credibility**
- **Confidential, enhanced information sharing**
- **Subsidiarity: facilitates, does not replace, actors**
- **Focus on preserving value, returning debtor to growth and sustainability quickly**

V. Limits of the SDF

Not a panacea

- Cannot enforce participation
- Need to demonstrate incentives for involvement
- Needs regular consultation process to avoid trigger stigma
- No forced stays, does not provide a 100% standstill
- No certainty in binding creditors

VI. Complements existing work

1/ IIF Principles

- Transparency and timely flow of information
- Close debtor-creditor dialogue to avoid restructuring
- Good faith actions
- Fair treatment

2/ Review of IMF Lending into Arrears Policy

- Supports prompt Fund support
- Venue for good faith efforts to reach collaborative agreement

VI. Pragmatic reform agenda

SDF plus...

1/ Sovereign CoCos, state-contingent warrants

- Automatic rollovers and contingent debt-service reductions

2/ Define pari passu

- Automatic rollovers and contingent debt-service reductions

3/ Enhanced CACs with aggregation

- Make aggregation more effective:
 - lower threshold within issues, and/or remove within-issue voting
 - Institute comprehensive threshold across all debt outstanding

3/ Immunize payments systems

- Model legislation after Belgium/Euroclear protections

VII. Next steps

- **Widen discussion of SDF amongst private sector**
- **Incorporate pragmatic agenda into 2014 G20**
- **Identify small team of champions**
- **Create SDF: incorporate**