

Press Release

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**EMTA - Institute of International Finance - International Primary Market Association
The Bond Market Association - Securities Industry Association
International Securities Market Association - Emerging Markets Creditors Association**

Leading Financial Industry Associations Propose Market-Based Approach to Sovereign Debt Restructuring and Note Inherent Flaws With IMF's Proposal

Washington DC, New York, London, Zurich, December 17, 2002 ----- Leading financial industry associations representing the world's largest financial services firms delivered a discussion paper to Finance Ministers and Central Bank Governors of the Group of 10 leading industrial countries underscoring the "inherent problems" in the IMF's proposed Sovereign Debt Restructuring Mechanism ("SDRM"). They stressed that a market-based approach to strengthening crisis management holds the only promise for success.

The leaders* of the associations noted that they share the G10's concerns for the need to establish a more effective approach to crisis management. They reiterated that private investors accept responsibility for their investment and credit decisions and do not look to any official organizations to cover potential losses.

The SDRM: An Unnecessary and Counterproductive Mechanism

The paper contains detailed arguments against the SDRM, while highlighting a market-based alternative approach that makes the SDRM unnecessary. This approach, which includes the development of collective action clauses (CACs) for inclusion in bond documents, would operate in the context of an international Code of Conduct for crisis management to be applied on a case-by-case basis and which would help to guide the behavior of all parties involved. Many of the arguments put forth by the private financial community have been shared by key emerging markets officials.

The associations noted that no changes in any specific aspects of the SDRM would alter their serious concerns about the proposal. They said the SDRM rests on the false premise that an inherent collective action problem exists among private sector creditors in sovereign debt restructurings and point out that not one restructuring has been prevented from moving ahead by the actions of holdout creditors. They stressed that implementation of an SDRM would render CACs meaningless by overriding, in advance, the clauses' intended operation with a statutory mechanism. G-10 support of the SDRM has made implementation of the clauses more difficult and the shadow of the SDRM has had an adverse effect on private sector flows. If implemented it would raise borrowing costs and further weaken flows.

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The associations provided a detailed analysis of the weaknesses of the SDRM. This analysis reflects the views of a wide range of finance professionals engaged in emerging markets. The associations argue that the analogy between an SDRM and private sector bankruptcy legislation is fundamentally flawed. Whereas private companies are subject to the jurisdiction of a bankruptcy tribunal, under an SDRM sovereign debtors would not be subject to the appropriate checks and balances that legitimize and make such a bankruptcy regime fair and effective. The paper also points out that the SDRM would appeal to those political forces in emerging markets that look for easy alternatives to policy discipline, making it more difficult for finance officials to convince others of the need for adjustment

Progress Made on Collective Action Clauses

The associations said they have made substantial progress towards developing marketable CACs that could command the support of both investors and issuers. They added that the private financial sector community remains interested in implementing marketable CACs, which could contribute to a more supple global financial framework if supplemented by enhanced transparency provisions and early warning signals of credit deterioration. CACs would facilitate effective restructurings where unavoidable while protecting essential creditors' rights. For example, CACs would permit certain key bond terms to be amended or waived by the holders of a super-majority – but less than 100% – of the aggregate principal amount of the bonds.

Code of Conduct Proposed

As part of their market-based approach, the financial sector leaders also proposed that an international Code of Conduct be developed. Such a Code would promote collaboration among all participants in emerging market finance. The proposed Code would aim at resolving financial difficulties at an earlier stage before such problems become unmanageable. The leaders indicated that they are drafting such a Code with a view toward discussing it with official sector leaders in the near future.

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