

Sovereign Debt Restructuring

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Proposed Guiding Principles on Process and Timeline

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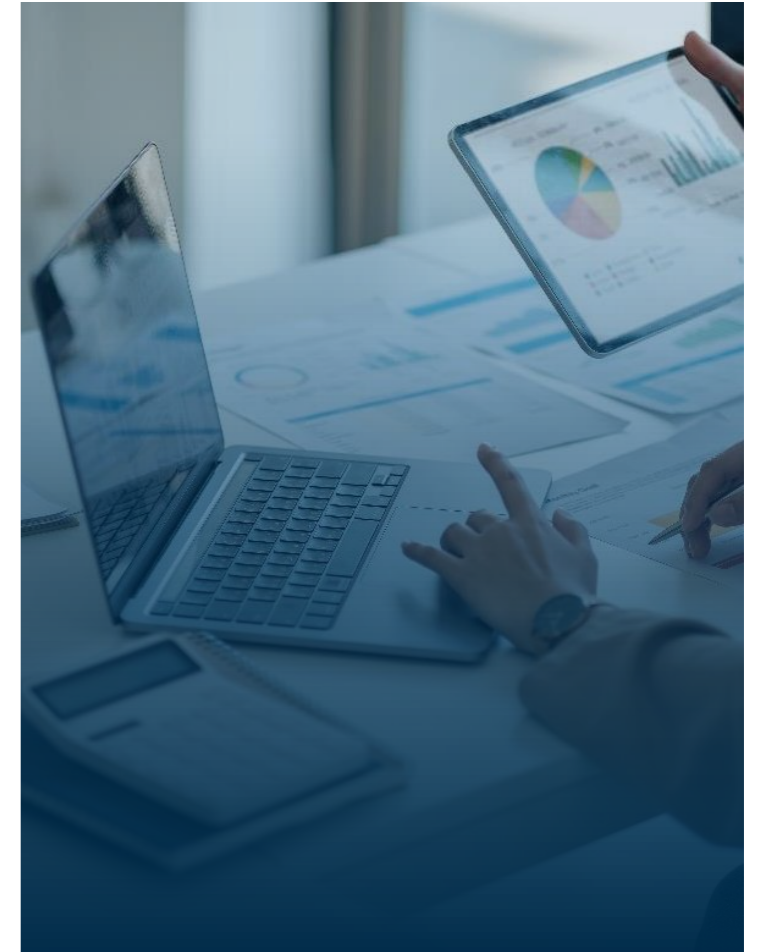
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I. Executive Summary (I)

A small group of Wilton Park attendees from **Alvarez & Marsal** (financial advisor), **BlueBay Asset Management** (investor) and **White & Case** (law firm) worked on this proposal, which emanated from an industry offsite in September 2023. This proposal highlights some of the key themes from the offsite.

Introduction and purpose of the note

This note follows the Wilton Park conference(*) on “Emerging markets in debt distress: exploring options for debt restructuring”, held 13 – 15 September 2023. The event gathered high level private and public sector representatives as well as experts from outside government, in a participatory dialogue to discuss the challenges facing emerging market countries in debt distress and to identify solutions for more efficient and effective debt restructuring processes.

Amongst the issues raised at Wilton Park by the participants were topics in relation to the lengthy process and uncertain timeline of sovereign debt restructurings and it was felt that this could be improved by developing a best practice timeline / process, which could be used by relevant stakeholders as a practical guide for sovereign debt restructurings in the future. Following the event, a small group of participants from Alvarez & Marsal, BlueBay Asset Management and White & Case agreed to discuss and release a proposal outlining a timeline for debt restructuring processes and a set of principles concerning the responsibilities of all stakeholders involved. Before finalization of the note the group hosted a webinar in June 2024 to obtain feedback from the wider group of Wilton Park participants. It should be noted that this document is not attributable to and has not been endorsed by Wilton Park, but it rather expresses the opinions of this small group of Wilton Park participants.

Three specific (and inter-linked) issues were also raised in the process for further consideration namely...



Information Sharing

- Comparability of treatment formula
- Composition of the debt profile
- DSA parameters



Timing

- Rigid sequencing in the treatment of debt relief between groups of creditors
- IMF financing assurances



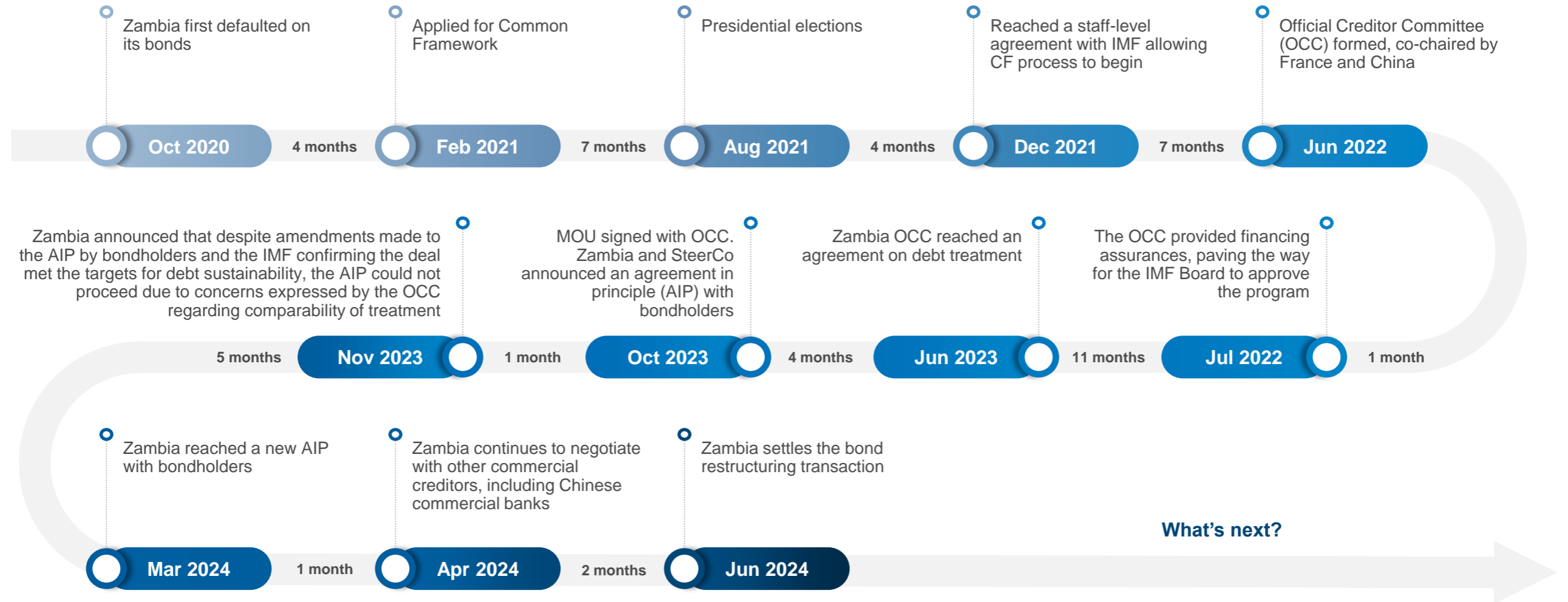
MoU Transparency

- Sharing of MoU terms with private creditors

It should be noted that these themes have been raised and discussed at other fora / events in the past and is complementary to the efforts being made by the G20 and Global Sovereign Debt Roundtable (GSDR), in particular. It is acknowledged that these themes may be simple in concept to understand but they are complex to resolve as it will require ‘buy-in’ from multiple parties. This note outlines at a high-level potential solutions to help resolve these themes, but will require further consultation from interested parties.

*Wilton Park is an executive agency to the Foreign Commonwealth Development Office (FCDO) providing a global forum for strategic discussion.



I. Executive Summary: High-level Timeline of the Zambian Sovereign Debt Restructuring (II)



NB: Please note that this timeline is based on our understanding of the process and certain details may have been omitted or may need further clarification. Please note high level timelines for Ghana and Sri Lanka are included in the Appendix later.

II. Since September 2023, developments include the proposed NYC law on Sovereign Debt recommitted in March 2024 and the IMF reform for LIOA policy approved April 2024

NON-EXHAUSTIVE

	Aim	How will it be achieved?	What the reform does not address?
<p>NYC Law</p> 	<p>By proposing mechanisms for voluntary petition of relief with the New York state, the SDSA aims to strengthen New York's role in issuing and trading sovereign debt and reducing the need for bailouts, negative social costs, systemic risk to the economy, and creditor uncertainty</p>	<p>Several proposals are under consideration by the New York legislature, including caps the recovery of private creditors not to exceed that of official creditors, a comprehensive regime for sovereign restructuring and limits on ability to bring actions when bonds are bought with the intention to bring a claim (champerty)</p>	<p>Comparability of treatment Burden-sharing principles Transparency and information sharing</p>
<p>IMF LIOA Policy</p> 	<p>Decrease the time between a staff-level agreement (SLA) and the board approval of the program</p>	<p>Permits the IMF to lend to countries even before financing assurances are fully secured, provided there is a credible official creditor process in place</p>	<p>Comparability of treatment Transparency and information sharing</p>

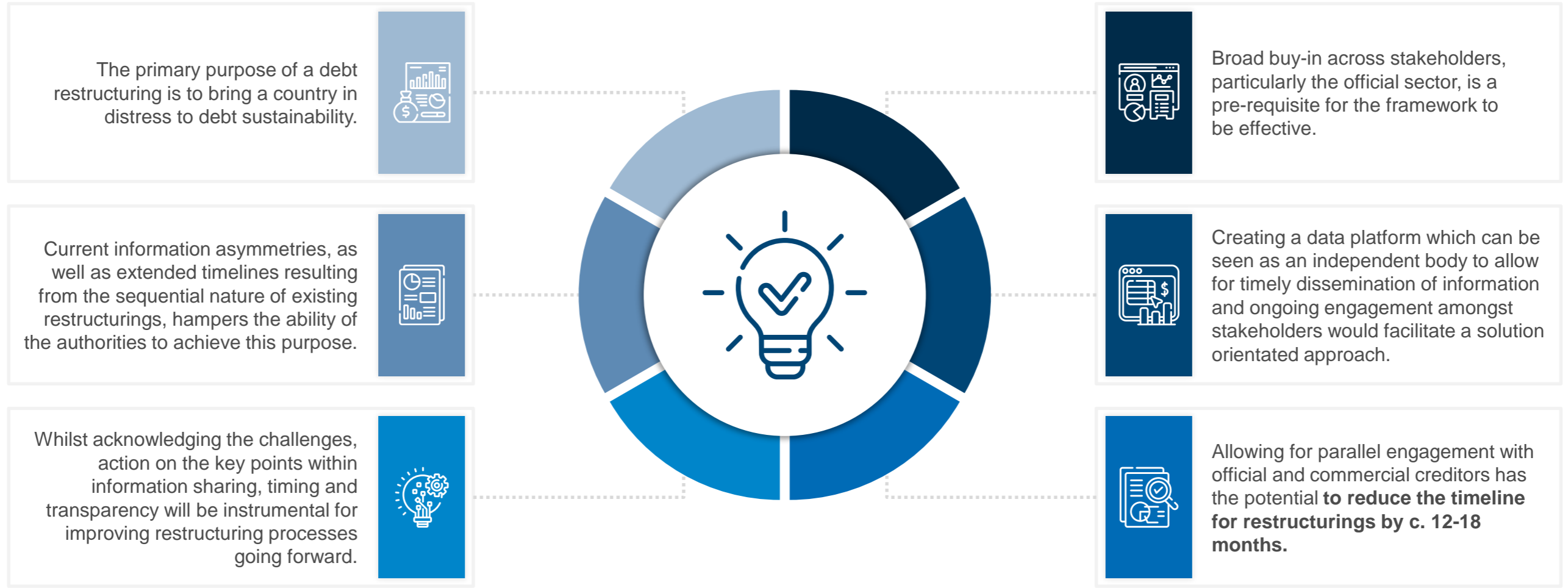
Note: Recent articles / blogs ('Sovereign debt restructuring and the G20 Common Framework : real or symbolic progress' by Livia Hinz) plus a policy briefing note ('24-4 Restructuring Sovereign Debt The Need for a Coordinated Framework' by Sean Hagan and Brad Setser) have identified the various weaknesses in the sovereign debt restructuring process and they also make a similar case for a coordinated approach in place of the current sequential approach.

III. We believe that these recent reforms don't address fully the entire scope of the problems that we identified back in September 2023. Therefore, we also propose the following additional solutions to complement the existing development (I)

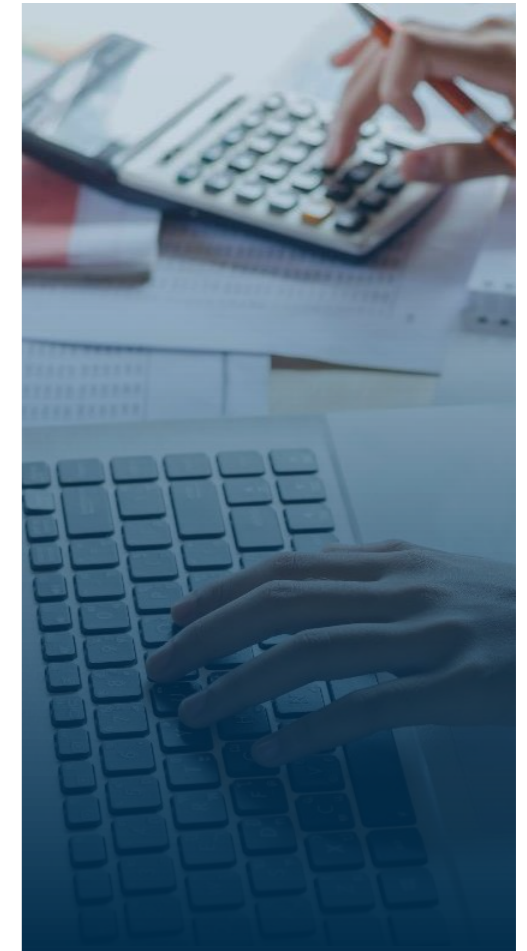
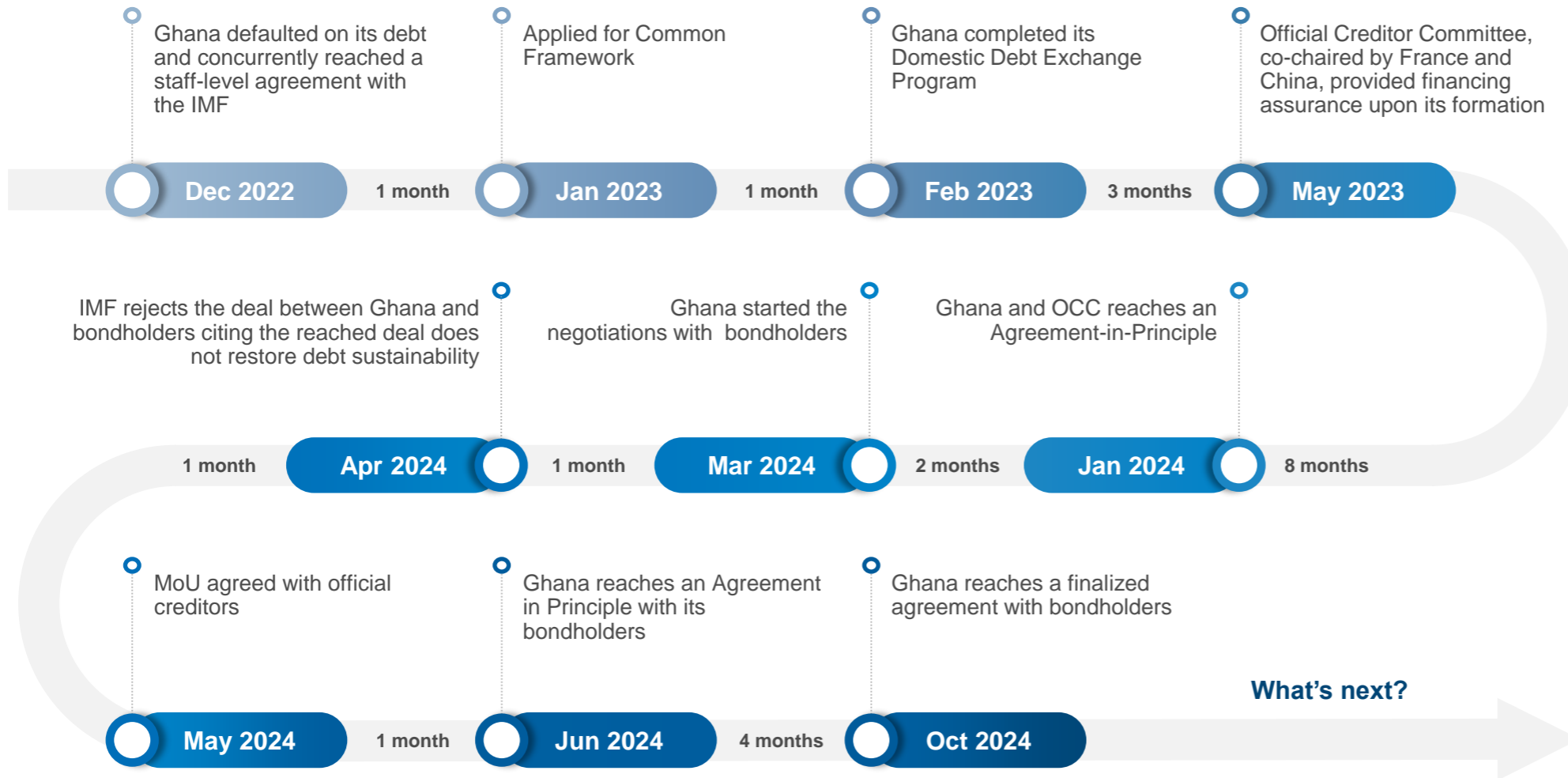
	Issue	Proposed Solution	Actions to Execute Solutions	Risks
01	Information Sharing	<ol style="list-style-type: none"> How - Establishment of standardized reporting frameworks and regular information dissemination to all stakeholders from earlier stages. Who – A global industry association* with membership comprising of a representation of private creditors, legal and / or financial advisors for information assimilation, not negotiation. This body could also be granted a seat at the Global Sovereign Debt Roundtable. IMF and authorities to present and solicit relevant feedback on the main elements of DSA to private creditors (or their advisors) in advance of the IMF board meeting. 	<ol style="list-style-type: none"> Develop standardized templates for reporting key information about the debt restructuring perimeter, parameters of the DSA that can be disclosed, and the proposed debt treatment. Establish a central repository for storing and disseminating this information to all stakeholders, including debtor countries, creditors, civil society organizations, and the public. Additionally, this "single window" could compile relevant non-sensitive information about past restructurings (e.g., restructurings completed 10-15 years prior). Implement a regular schedule for information releases, ensuring transparency throughout the debt restructuring process. Define the mandate and functions of this entity, including information sharing, advocating for creditor interests and participation in negotiations, . Secure a seat for this entity at the Global Sovereign Debt Roundtable and other relevant forums. IMF to arrange to disclose key elements of the DSA to key stakeholders during the process to (i) allow stakeholders to understand and provide feedback (but not negotiate) on DSA assumptions and terms and (ii) to inform the IMF of private creditors' perspective on the DSA (if requested by the IMF). 	<p>Establishment and governance of new entity.</p> <p>Independence of responsibility for information collection and sharing is important.</p> <p>There may be resistance from certain parties to disclose sensitive financial information. For example, disclosing the DSA before IMF board approval (i.e., before it is by definition complete), makes it subject to lobbying for the DSA to become creditor friendly.</p>
02	MoU Transparency	<ol style="list-style-type: none"> G20 / Paris Club Secretariat (PCS) should develop a standardized framework outlining transparency requirements for MoUs, including at a minimum the "main parameters" of the official creditor deal. G20 / PCS to automatically release (i) the main parameters of MoUs providing key information without compromising sensitive details during the process, and (ii) the full MoUs after signing of MoU, within agreed timeframes. 	<ol style="list-style-type: none"> The G20 / PCS to convene a working group to develop a standardized transparency framework for MoUs, outlining minimum requirements for disclosing key information, such as the perimeter of the debt restructuring, the parameters of the DSA, and the proposed debt treatment, while addressing confidentiality concerns and ensuring that sensitive information is protected. The G20 / PCS to develop a process for automatically releasing (i) non-confidential summaries of MoUs during the process, within a specified period of time, such as 30 or 60 days and (ii) full MoUs after a specified period of time, such as 12 or 18 months after the debt treatment completion. Key information about the debt restructuring, redacting sensitive information from the summaries. 	<p>Deciding what qualifies as 'non-confidential' information can be subjective and case-specific.</p> <p>Implementing a standard framework for disclosure risks adding more complexity and leading to protracted negotiations between the Debtor Countries and the Official Creditor Committee.</p>
03	Timing	<ol style="list-style-type: none"> G20 / PCS to provide greater clarity for how Comparability of Treatment (CoT) is assessed, in order to allow for flexibility to conduct a parallel process, when appropriate. 	<ol style="list-style-type: none"> Develop a clear and objective guidelines / examples for assessing CoT considering the specific circumstances of each case, including the type of debt treated, maturity profiles, pre-restructuring contractual terms, discount rate, economic conditions of the debtor country, and creditor's willingness to act on a timely debt treatment resolution. Implement a transparent process for reviewing and approving CoT assessments, ensuring stakeholder engagement and due process. Establish clear triggers and conditions for triggering private sector participation, ensuring fair burden sharing and responsible lending practices. Implement mechanisms for coordination and information sharing between official and private creditors throughout the process (see Issue #1) 	<p>More upfront transparency might result in the need for more iterations as creditors would likely need to agree on more aspects of the restructuring parameters.</p>

* This group could be either an existing or new organisation whose representation and governance would be dependent on the requirements circumstances and of the particular needs at the time of set up and would evolve over time.

Key conclusions

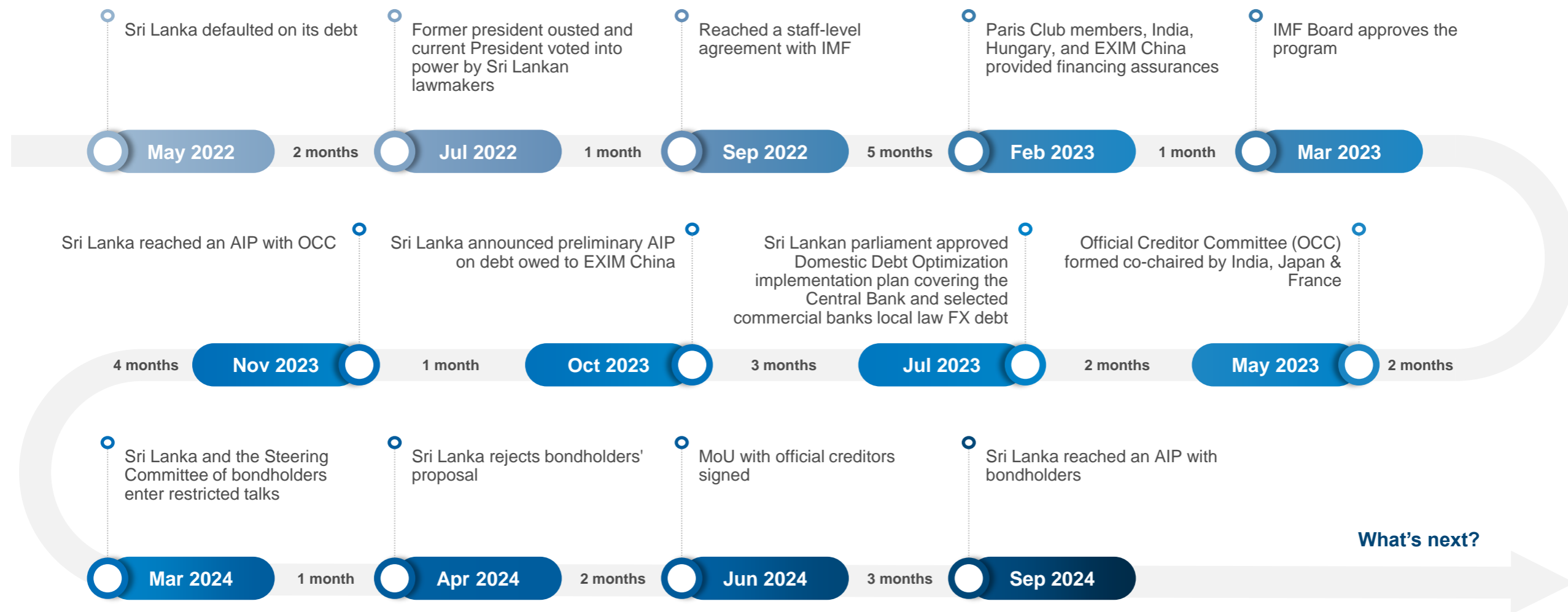


Appendix: High-level Timeline of Ghana's Sovereign Debt Restructuring (I)




NB: Please note that this timeline is based on our understanding of the process and certain may have been omitted or may need further clarification.

Appendix: High-level Timeline of the Sri-Lankan Sovereign Debt Restructuring (II)



NB: Please note that this timeline is based on our understanding of the process and certain may have been omitted or may need further clarification.

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