Global or Localized International Policy? Analysis of the Collective Action Clauses in the framework of the External Debt of Emerging Countries

Claire Husson and Roberto Inda[1]
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MPA, Columbia University

[1] Graduate students in the Master of Public Administration (MPA'05) – School of International and Public Affairs Columbia University
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CONTENT

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The opinions expressed in this paper represent solely those of the authors and not necessarily those of our professors or references.

INTRODUCTION

Sovereign debt crises, at a time of a striking appetite of international investors for high yield sovereign securities issued by the emerging markets, affect not only the countries directly facing a liquidity shortfall or an insolvency situation but also the international community. As direct massive lenders to developing countries, the multi-lateral organizations (World Bank, International Monetary Fund,…) might also be the creditors threatened of non-repayment when a sovereign default occurs. As a consequence, the recent sovereign defaults (Russia 1998, Argentina 2002) have pushed towards the design of international standards that would regulate and organize the debt restructuring processes of defaulting economies; the IMF has been the conductor of such a market reform. So far, an international sovereign bankruptcy law has not been designed. Nevertheless, the market practice has evolved so much so that the terms of issuance of international bonds include provisions in case of default. Thus, the Collective Action Clauses (CACs) were gradually introduced in the issuance terms by practitioners and have been recently encouraged by the IMF. These legal provisions aim at easing the debt restructuring management of a defaulting entity by enhancing majority rules among bondholders, ultimately in order to help the defaulting debtor.

In this paper, we would like to assess whether the CAC provisions were induced in the emerging markets by the "globalization machine" and various exogenous pressures or whether they were consciously favored by the national authorities in order to efficiently manage the necessary restructuring of their debt in case of bankruptcy.

Thus, we will first define the CACs with respect to their historical background and legal framework. Then, relying on historical data, we will make simple comparisons between CAC and non-CAC issues on selected sovereign bonds and review the empirical literature. This will lead us, in a third part, to the analysis of the theoretical expected effects that markets' and issuers' behaviors have neither falsified nor demonstrated, in the light of the recent history of CAC provisions. Finally, we will present some policy implications and conclude on the efficiency of such a global policy when applied to the external debt of emerging countries.

DEFINITION OF THE CACS

An international bond corresponds to a fixed-income instrument governed by a foreign law and subject to the jurisdiction of a foreign court. We limit here our analysis to international sovereign bonds. In this framework, the CAC mechanism, since its creation, has designated legal provisions that affect the sovereign issuers and corresponding creditors. On the other hand, we will see that, since the issuers can choose the jurisdiction of issuance, these CAC provisions have different versions. Moreover, the issuer has even still the option of issuing international bonds without any CAC provisions until now. In this sense, the CAC provisions do not constitute an external legal obligation that emerging markets should face; but, they provide the issuers and investors with optional legal tools. This current (temporary?) situation deserves therefore a detailed review of its historical and legal backgrounds, keeping into account that either issuers or creditors have the freedom to choose between CAC and non-CAC issues.

1. Historical background

According to Arturo C. Porzecanski[2], historically it is very common for countries not to be able to meet their financial obligations on time; the main reasons for these sovereign defaults are related to either internal or external factors or a combination of both. As shown in Appendix 1, 1990's and 1980's were decades of high level of sovereign defaults caused by global economic distress.

Over the past few years, governments of emerging markets have promoted the development of local bond markets. Institutional Investors (Pension Funds and Insurance Companies) have created a natural demand for long-term securities, which has reduced their level of indebtedness in foreign currency (mostly US$ or EUR).

Even though policy makers, underwriters and investors have been dealing with sovereign default for a long-time, only two mechanisms have been proposed in the last couple of years:

- Sovereign Debt Restructuring Mechanism (SDRM), proposed by Anne Krueger, First Deputy Managing Director of the International Monetary Fund in 2001[3].
- Collective Action Clauses (CACs), officially encouraged by the G-10, the IMF and specifically by John Taylor, Under-Secretary for International Affairs at the U. S. Treasury.

Sovereign Debt Restructuring Mechanism (SDRM):
Under this mechanism, the IMF would have played an important role. At the beginning, the IMF was expected to make decisions limiting creditors' rights. Later, the role of the IMF evolved to the point where the multilateral organizations would just express an opinion on the debt service level for each of the issuers and enhance the classification of creditors, in correlation with the currently applied rules of the

[2] "Dealing with sovereign Debt: Trends and Implications" by Arturo C. Porzecanski, Forthcoming in *Sovereign Debt at the Crossroads* Oxford University Press, draft September 2004
[3] "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring", Address by Anne Krueger First Deputy Managing Director, International Monetary Fund given at the National Economists' Club Annual Members' Dinner American Enterprise Institute, Washington DC November 26, 2001 and following staff reports http://www.imf.org/external/np/exr/facts/sdrm.htm

Club of Paris. With respect to the radical SDRM mechanism, unanimously rejected by the international investors, the CAC provisions appeared providential and had therefore often been defended as the best alternative to the later scheme by their proponents. In parallel, other legal frameworks to the SDRM had been thought such as a drafted Code of Conduct introduced by the French Central Bank Director in 2003, Jean-Claude Trichet. Per say, the "Trichet Proposal" raised the necessity of constituting committees including all relevant stakeholders.

Collective Action Clauses (CACs):
These legal provisions refer to clauses facilitating changes in payments and other terms by a qualified majority of bondholders. According to John Taylor, "The clauses would describe as precisely as possible what happens when a country decides it has to restructure its debt"[4].

John Taylor recognizes that the details of the CACs would be determined by borrowers and lenders as new issuances occurred but at least the following clauses should be included:

1) Existence of a majority action clause, (i.e. 75 %);
2) A clause stating the process for investors and the issuer to solve a restructuring conflict;
3) A clause mentioning how much time the issuer would need to initiate a restructuring process.[5]

According to Standard and Poor's (S&P), the SDRM mechanism has loosened support while the CAC provisions have gained ground, in part because they have been accepted by investors and also because the US Treasury has supported the initiative.[6]

"In February 2003, Mexico became the first major emerging market borrower to issue a bond with CACs under New York law, and Uruguay issued all of its bonds during the recent bond restructuring with CACs, under New York law also."[7]

As of the beginning of December 2004, EMTA censed 34 countries having issued under CACs, which reflects an outstanding amount of above US$ 70 billions (Appendix 2). In parallel, the IMF estimated in April 2004 that, since the end of 2003, 70% of sovereign issues had been issued with CAC provisions[8], which represented in April 2004 39% (US$ 141 billions) of the outstanding amount of international sovereign bonds (Appendix 3). As of today, the observed discrepancy in the estimated outstanding amount of CAC issues reveals the difficulties encountered by market agents and analysts when trying to track them. This point has actually often been mentioned by our interlocutors and in the literature that questions the methodology of tracking the CACs as shown below.

2. Legal framework and recent evolution

The market practice has long included this process of risk-pooling among bondholders. Thus, the CAC provisions can be assimilated as specific insurance policies relying on various legal constraints

[4] "Sovereign Debt Restructuring: A U.S. Perspective" by John B. Taylor, Under Secretary of Treasury for International Affairs at the conference *Sovereign Debt Workouts: Hopes and Hazards?,* April 2002
[5] Ibid
[6] "Sovereign Defaults Set to Fall Again in 2005" by Standard and Poor's, September 2004
[7] "Default Episodes in the 1980s and 1990s: What have we learned?" by Punam Chuhan and Federico Sturzenegger, World Bank and Business School, Universidad Torcuato Di Tella, 2004
[8] Progress Report to the International Monetary and Financial Committee on Crisis Resolution, IMF, April 20, 2004

defined by the different international exchange authorities with which a sovereign issuer agrees to comply for its external debt.[9] And indeed, in the absence of any international instance that would cense and regulate all CAC issues of international bonds, the jurisdiction of issuance represents the current proxy for identifying CAC issues and is currently faithfully used by multilateral organizations, empirical economists or market agents such as investment banks or rating agencies. Consequently, all international bonds issued under the English, Japanese, Luxembourg and now under the New York Laws are considered CAC issues, while the German Law has not systematically implied CAC provisions so far.

The "CAC label" has officially been stamped on all issues from these jurisdictions since 1996. Under the encouragement of the G-10, CAC provisions have been proclaimed as a respectful signal and efficient tool to sustain the external debt of emerging markets. Therefore, the CAC concept designates majority restructuring and majority enforcement provisions that can be assimilated as a super sovereign Chapter 11, as applied to defaulting companies in Corporate America. Fundamentally, it shifts each individual bondholder's vote to a unique majority vote, the majority being quantified by the portion of the outstanding debt hold by the so-called majority bondholders. The majority threshold varies from one jurisdiction to another, but in all cases, the CAC provisions aim at preventing a minority of bondholders from acting according to their own interests, regardless of those of the majority and ultimately of the issuer. All the majority restructuring provisions regulate necessary changes of the financial and non financial terms of a bond in the event of default, while the majority enforcement provisions correspond to governing rules among bondholders along the life of a bond.

2.1. The Majority Restructuring Provisions

These provisions address the following issues occurring in case of default[10]:

- Convening of meetings,
- Notice of bondholders' meetings,
- Quorum requirements (typically, the quorum is reached when 3/4 but sometimes 2/3 of the total outstanding principal of the issue are represented by present bondholders); if the quorum is not reached in the first meeting, the quorum might be reduced to 1/4 in the adjourned meeting,
- Voting rules: 3/4 or 2/3 of the outstanding principal represented at the meeting,
- Rights: to exclude some bonds if these are held only for the majority quorum and voting purposes.

Currently, the English, Japanese, Luxembourg and New York Laws include these provisions that are activated when the issuer defaults on its external debt or when a default occurs under other indebtedness ("cross-default").

As mentioned by the IMF[11], the Emerging Markets Creditors Association proposed to increase the threshold to 95% of the bondholders for certain key terms to avoid the "quick and easy" modification of keys terms such as pari passu clauses, negative pledge covenants, choices of jurisdictions and immunities waivers.

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[9] Note that an international bond can have different jurisdictions listed. See "Collective Action Clauses in Sovereign Bond Contracts – Encouraging Greater Use" - International Monetary Fund, Prepared by the Policy Development and Review, International Capital Markets and Legal Departments, June 6, 2002

[10] "The Design and Effectiveness of Collective Action Clauses" - International Monetary Fund, Prepared by the Legal Department in consultation with the Policy Development and Review and the International Capital Markets Departments, Approved by Francois Gianviti, June 6, 2002.

[11] Ibid, IMF 2002

2.2. The Majority Enforcement Rules

These rules forbid the following actions[12]:

- Commencement of legal suits against the issuer; but a trust deed if invoked by 20%-25% of bondholders in terms of outstanding debt might initiate a legal suit but would then have to share on a prorate basis the proceeds among all bondholders.
- Capital and interests payment acceleration in the event of default; typically 1/2 - 3/4 of outstanding principal is necessary but there are cases that allow bondholders to act as long as they represent from 10% to 25% of the value of the bond.

Additional types of clauses that are not currently part of international sovereign issues have been considered by the IMF[13] to support the CAC provisions' aims mentioned above. These are:

- Representation clauses; according to the IMF, the trust deed that facilitates the communication and ultimately the restructuring process between the debtor and the creditors is not a neutral intermediary and could tend to defend the interests of the bondholders at the detriment of the issuer. Therefore, the introduction of an external international instance could address this issue.
- Initiation; a.k.a. "cooling-off" clauses. These would prevent bondholders from undertaking any actions between the announcement of default and the first bondholders' meeting.
- Aggregation provisions; these would regulate the restructuring process of a country when its private assets that are detained by the same or other creditors are also affected by the default; Uruguay has recently introduced this clause[14].

At the end of the year 2001 and again in April 2004[15], the IMF estimated that international bonds were split as such between jurisdictions (Appendix 3):

Jurisdiction	% of outstanding principal - international bonds	
	December 2001	April 2004
US	59.1	63
English	24.1	26
German	10.1	7
Japanese	5.8	4
Luxembourg	0.2	N/A
Others	0.7	

The year 2004 is marked by IMF's clear intention of gradually standardizing the CAC provisions across jurisdictions, without taking the freedom of jurisdiction choice from debtors and creditors. Practically, the CAC provisions seem to converge to a 75% threshold. Barry Herman notes that before the explicit introduction of the CAC concept in the New York Law in 2003, the issuances under this jurisdiction already allowed a debtor to delay short-term payments or to refund its outstanding debt with "easier terms", exchanging the old bonds with new bonds with a lower face value and interest.[16] Other "exit consents" had also been applied, sometimes abusively, by creditors; these exist consents should be fixed by the new terms of the New York Law.

[12] Ibid, IMF 2002
[13] Ibid, IMF 2002
[14] "Dealing Deftly with Sovereign Debt Difficulties" by Barry Herman, *Task Force on Debt Restructuring and Sovereign Bankruptcy,* Initiative for Policy Dialogue's Working Paper Series, August 30, 2004 - http://www0.gsb.columbia.edu/ipd/pub/DealingDeftly10_28.pdf
[15] Ibid, IMF 2004
[16] Ibid, Barry Herman 2004

We note that the jurisdiction might depend on the currency of denomination of the bonds issued and indeed some single issues have several different jurisdictions. In such a case, what is the value of CAC provisions with respect to negotiation-silent contracts in the case of multi-jurisdiction issuances? Will the English Law become the legal benchmark for other jurisdictions or for a new international set of sovereign debt restructuring standards? As of today, we are unable to predict the evolution of the CACs and moreover their robustness in case of future sovereign defaults or international financial crisis. But in the following chapter, we will tend to sum-up and analyze their empirical and theoretical effects.

EMPIRICAL ANALYSIS OF THE CAC ISSUES

While CAC provisions had long been a self-imposed practice by investors to govern their interaction, they have recently attracted the attention of multilateral organizations concerned with the indebtedness of certain countries (Heavily Indebted Poor Countries initiative, 1996[17]) and with the threat that a sovereign default represents not only for the national economy, but also for the sustainability of the global financial markets.

1. Yields and ratings

To analyze the effects that the CAC provisions might have had on yields and ratings, we will concentrate on four sovereign issuers: Mexico, Hungary, Turkey and South Africa. As shown in Appendix 4, the yield to maturity of CAC and non-CAC issues presents the same pattern, which demonstrates that, once a CAC issue is being traded, investors' expectations are the same as if the issue would not have any CAC provisions. Considering that it is very complicated to determine the exact yield at which a new issue will be underwritten (beyond the CAC characteristic), the experience shows that the differences of the yield between an on-the-run non-CAC and a new CAC issue are almost insignificant and that it could be caused by factors other than a premium.

After having considered the foreign currency long-term credit rating of these four countries (Appendix 5), we can affirm that the three major rating agencies (Moody's, S&P and Fitch Ratings) have not upgraded nor downgraded foreign currency long-term debt, right after a CAC issuance; but CAC provisions have become one more factor to take into consideration when analyzing sovereign credit profile. Also, normal oversubscriptions have been observed; as a consequence, transaction volumes seem to be maintained, despite the introduction of the CAC provisions.

We should however note that, as Barry Herman says, rating agencies are not necessarily the most accurate institutions for assessing the probability of sovereign default. But, in practice, "[…] bond buyers [and…] government regulators of insurance companies, pension funds and increasingly of commercial banks […] rely on their judgments in classifying the riskiness of different sovereign securities held by the financial firms they oversee."[18]

2. Snapshot of the empirical literature

The empirical analysis of Eichengreen and Mody reveals that the cost of borrowing for CAC issues might increase for low-credit rated countries, while higher graded countries seem to have benefited from issuing with CAC provisions[19]. This would come from the fact that investors fear debtors' moral

[17] Club of Paris - http://www.clubdeparis.org/en/presentation/presentation.php?BATCH=B04WP04
[18] Ibid, Barry Herman 2004
[19] "Would Collective Action Clauses Raise Borrowing Costs?" by Barry Eichengreen and Ashoka Mody, Working Paper 7458, NBER, January 2000

hazard; as a consequence, this fear increases the probability of default of fragile economies and therefore offsets the benefits of the CAC provisions.

Two years later, Mark Gugiatti and Anthony Richards[20] came up with a more optimistic conclusion showing no evidence according to which CAC provisions would have increased the borrowing cost for sovereign issuers, thereby reinforcing the positive opinion on CAC provisions of commercial banks and rating agencies. But actually, the authors insist on the fact that market agents had often been unaware of the presence of CAC provisions in sovereign issues and according to them, this would constitute the main reason of the absence of any change in the behavior of market participants.

Beyond these seemingly contradictory empirical studies, Federico Weinschelbaum and Jose Wynne[21] concluded in a theoretical framework in 2004 that CAC provisions would increase the countries' borrowing cost under a new international bankruptcy regime. They mainly base these conclusions on the fact that CAC provisions introduce debtors' moral hazard, enhanced by the IMF guarantee.

Thus, different papers address the problem empirically in using different econometric models. Beyond the empirical effects of the CAC provisions identified in the literature and disputed in some instances, we would like to present a non-exhaustive list of theoretical effects induced by the introduction of CACs.

[20] "Do Collective Action Clauses influence bond yields? New Evidence from Emerging Markets" by Mark Gugiatti and Anthony Richards, Research Discussion Paper 2003-02, Reserve Bank of Australia in March 2003

[21] "Renegotiation, Collective Action Clauses and Sovereign Debt Markets" by Federico Weinschelbaum and Jose Wynne, Journal of International Economics forthcoming, June 2004

OTHER EFFECTS INDUCED BY THE IMPLEMENTATION AND USE OF CACS

Here, we will try to list the major potential effects we have identified, given the current CAC provisions' design.

1. From the investors' point of view

1.1. Emergence of "bad" investors?

In the previous chapter, we discussed bondholders' potential benefits of having CAC provisions in case of default, in avoiding hold-outs by a minority of investors pretended to be short-term viewers interested in immediate profits. Thus, in the framework of Arrow's impossibility theorem, CAC provisions theoretically exclude irrelevant independent alternatives, by the virtue of this internal majority rule, *i.e.* CAC provisions are self-imposed by the debtor and the creditors who decided to buy the issue; in theory, the Condorcet Paradox cannot occur then. But, what if the majority of bondholders claim for immediate full repayment in case of default? For sure, the investors would be satisfied but the local economy would suffer from such a legally enforced immediate payment obligation that could only be honored by borrowing from multilateral organizations such as the IMF or the WB. Ultimately, the international community and the financial system could be destabilized by a misuse of the CACs. And indeed, while current CAC provisions address the problem of the quality of the borrowers, they do not raise any potential issues in screening the quality of the investors.

1.2. Reinforcing the supremacy of the international investors in detriment of private domestic creditors?

Another point we would like to raise concerns the absence of distinction between resident and non-resident investors. Under the CAC provisions, during the negotiated restructuring process, the residents might not be able to fuel the local economy, suffering from delayed repayments and liquidity constraints. But, if the issuers privilege their residents, for instance by excluding their bonds from these specific provisions, this would repeal potential international investors in this country.

1.3. A shift of responsibility by the international community?

Finally, the CAC provisions might waive the responsibility of the "international authorities" and governmental instances upon the head of private investors who would have to wait for the debt to be restructured in order to regain their capital and other due proceeds. And as Pr. Stiglitz[22] mentions, the question of the liability in the case of sovereign bankruptcy requires limits, just like in the corporate context.

[22] Bankruptcy and Modern Capitalism ABCDE in Europe by Joseph E. Stiglitz, Senior Vice President and Chief Economist at the World Bank in June 1999, Paris, June 22, 1999

2. From the issuer's point of view

2.1. Signaling and adverse selections issues

We referred to the risk of moral hazard in the sovereign behavior as feared by investors. In this sense, the CAC provisions give a signal of infinite salvation, no matter how local authorities manage their debt. Or, for the new issues, the CAC label might also be interpreted as an alarm, in prevision of a default to come. Thus, investors often argue that until the CAC provisions become universal standards across all sovereign issues, CACs might introduce adverse selection, in the sense that only badly managed economies would be tempted to adopt such a legal precautions. A way of avoiding the signaling problem would consist in expanding the use of CAC provisions among all new issues. But, as the IMF states[23], the replacement of old outstanding bonds into new CAC issues would be costly and indeed unfeasible in the short or mid-term. In April 2004, according to the IMF, the transformation of the terms of non-CAC bonds into CAC bonds would have concerned 61% of the total outstanding amount of international sovereign securities issued by emerging markets. So, it is unlikely that in the coming years, CAC provisions will become universal and homogenous legal standards for all sovereign issues. So, the first movers might carry the burden of the transition to CACs that will be fully measured a posteriori. The CAC provisions constitute substitute tools to the markets' mechanisms in defending the honest borrowers. But, are these really rewarded for sound debt management? Isn't there any other alternatives that would allow for an efficient screening mechanism of debtors?

2.2. A loss of sovereignty?

The notion of sovereign bankruptcy is primary defined on the external debt of developing countries. But in the event of default, the total government debt is concerned. If CAC provisions apply to resident and non-resident investors, what would happen on the domestic debt's side? Would international creditors exploit the poor unwary domestic investors? On the other hand, is that an economically sustainable framework for defaulting countries to waive their sovereignty in the case of a local crisis? And, at a time of globalization of financial markets and tight interconnections between economies, does it really make sense to make an indebted country (often poor) liable for its bankruptcy? How can we however differentiate between an "isolated" bankruptcy and a systemic bankruptcy?[24]

3. From the IMF's point of view

The IMF that is traditionally acting as the ultimate intermediary between the debtor and creditors in case of default could be easily taxed of being a self-interested agent. However, we would like to mention the fact that if the IMF lends to developing countries in the form of loans, the IMF has never been a bond investor and therefore its seniority on other parts of the external debt does not imply an irrevocable sought towards full repayment of sovereign securities. In this context, the "Washington consensus" does not seem to represent a threat neither for investors nor for the issuers.

[23] Ibid, IMF 2002
[24] Ibid, Stiglitz 1999

POLICY IMPLICATIONS AND CONCLUSIONS

In the light of the recent history of the CAC provisions and the analysis of their spill-over effects, we cannot pretend to have a straight forward answer to the question of the efficiency of such a global, yet diversified, policy and of its effects on the international investors, on the local sovereign debtors and national economies. Moreover, the application of legal standards on the external sovereign debt in countries that struggle with their level of indebtedness, complicates the analysis. And, while the majority of the outstanding bonds do not have any CAC provisions yet, emerging markets have started to rely on their local market to raise debt (local currency denominated government securities), the future of the CAC provisions is not guaranteed, despite positive empirical analysis and reiterated encouragements by multilateral organizations.

In the current framework, there is no universal standardized CAC mechanism that would allow defaulting countries to restructure their external debt without facing additional burdens neither by investors nor by the international community, even though the English Law seems to become the international norm. But the ultimate aims remain consistent and even wished in a context of various concerns that go from "fair" economic development to sustainable financial systems and comparable treatments of public and private creditors. Yet, there is no doubt that private creditors are by nature harder to regulate internationally and that a global legal mechanism such as the CAC provisions might not properly solve all problems, in inducing side-effects. These private creditors however face today international accounting standards that set the bar such as the market-to-market evaluation of government securities in portfolios. Such standards harm the market in case of sovereign default. If a set of universal CAC standards had to be designed in a nearest future, we urge policy makers and investors to take the following actions into consideration:

1. **Coordinating the work of the multi-lateral organizations and market agents with the international accounting authorities (SEC, FASB, IASB,…) concerning the valuation of government securities in portfolios <u>and</u> in the capital account of issuers; this leads us to insist on the urgent necessity of adopting international accounting standards for governments, as the current International Public Sector Accounting Standards already address[25];**

2. **Encouraging due diligences among investors and issuers;**

3. **Extending the application of the CAC provisions to the external debt of developed economies; more than ever, leading global economies need to be consistent with their own policy designs and debt governance measures, in order to fully pool the global risk of financial markets;**

4. **Analyzing different legal options such as a Code of Conduct, an international standardized bilateral contract model or an international law,**

5. **Defining a corresponding legal mediator that would cense and monitor international sovereign bond issues;**

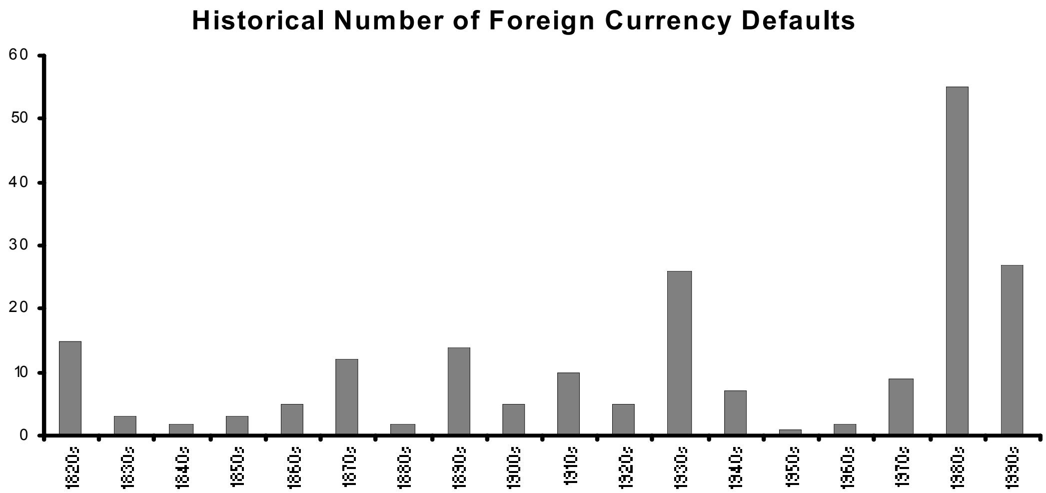
[25] More information available on the International Federation of Accountants website - http://www.ifac.org/PublicSector/

6. Addressing cross-debt and post-restructuring issues.

Again, we do not pretend to cover all debt restructuring issues in one magic recipe that would mix all ingredients mentioned above. Nevertheless, it is now the responsibility of monetary authorities and multilateral organizations to fully understand the notion of global policy and allow all sovereign nations to internalize its costs and benefits, in the emerging markets as well as in the (also heavily indebted) developed economies. In such a perspective, the Municipal Securities Rulemaking Board that regulates the local public finances in the US could constitute a fruitful consultative cooperator to design the legal framework of international bonds' transactions.

APPENDICES

1. Currency defaults



** Arranged by decade during which the default started, whether on bonded or bank debt; often these events of defaults took decades to cure, especially in the 19th and first half of the 20th centuries.*

Source: David T. Beers, "Sovereign Defaults Set to Fall Again in 2005," *Standard & Poor's CreditWeek* , October 6, 2004, 11-25, as presented in Arturo Porzecanski, "D*ealing with Sovereign Debt: Trends and* Implications", Draft September 2004

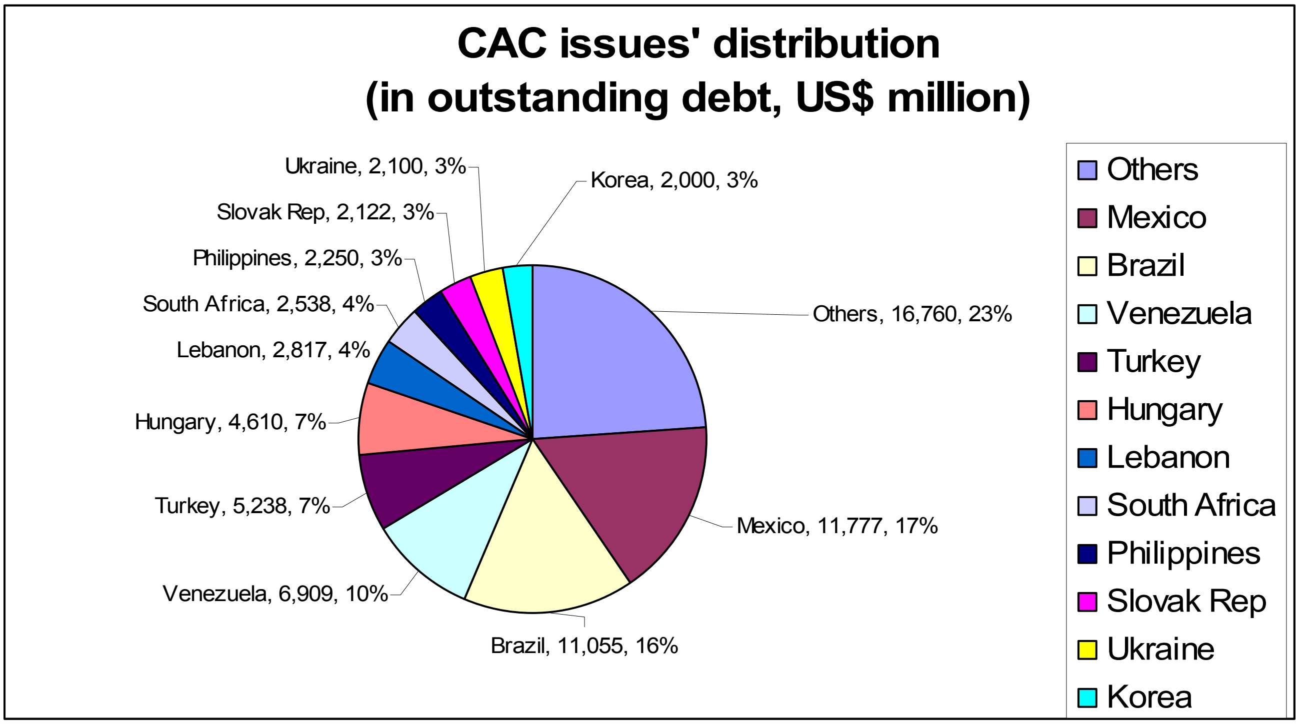
2. Issuers and outstanding amounts under CAC provisions as of today

CAC Issuers and Amount (million US$) [1]

Issuer	Amount	Issuer	Amount	Issuer	Amount
Bahamas	**200**	Indonesia	**1,000**	Poland	**1,308**
Bahrain	**250**	Israel	**500**	Romania	**861**
Belize	**100**	Korea	**2,000**	Slovak Rep	**2,122**
Brazil	**11,055**	Latvia	**492**	South Africa	**2,538**
Chile	**600**	Lebanon	**2,817**	Thailand	**1,300**
Colombia	**1,250**	Lithuania	**738**	Tunisia	**554**
Costa Rica	**250**	Mexico	**11,777**	Turkey	**5,238**
Croatia	**615**	Morocco	**492**	Ukraine	**2,100**
Czech Rep	**1,845**	Pakistan	**500**	Uruguay	**339**
El Salvador	**286**	Panama	**850**	Venezuela	**6,909**
Guatemala	**630**	Peru	**1,800**	**Grand Total**	**70,172**
Hungary	**4,610**	Philippines	**2,250**		

1: For foreign currencies, the issues were converted into US Dollars.

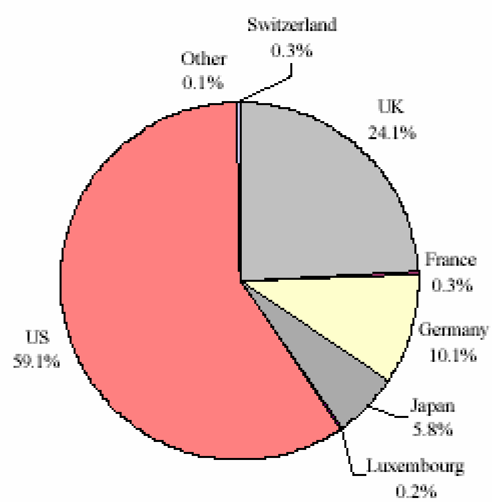
Source: EMTA



Source: Based on data provided by EMTA, December 9, 2004

3. <u>Distribution of jurisdictions on outstanding debt issue, Fall 2001 – Spring 2004</u>

Chart 1: Stock of Outstanding Bonds by Jurisdiction (end-2001)



Source: IMF, Report June 2, 2002 based on Dealogic Bondware and JP Morgan data

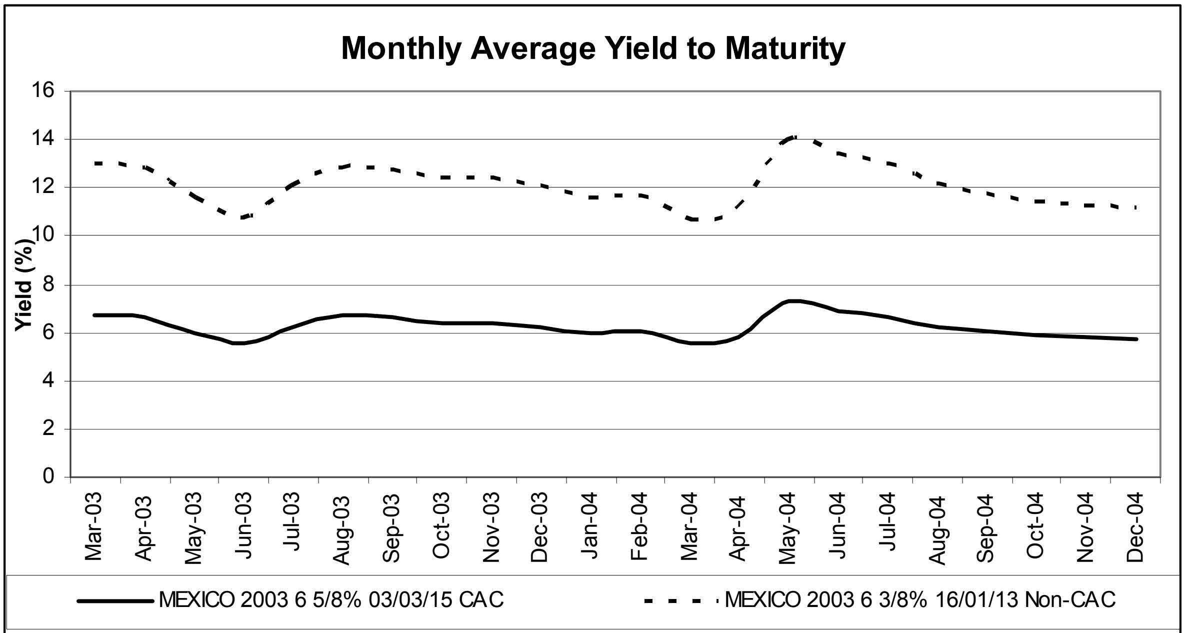
Table 2. Emerging Market Sovereign Bonds
Outstanding Stock by Governing Law

	Number of Issuances		Face Value of Issuances	
	(in number)	(in percent)	(in billions of U.S. dollars)	(in percent)
New York	389	59	227	63
English	163	25	93	26
German	63	10	27	7
Japan	47	7	15	4
Total	662	100	362	100
of which: including CACs	257	39	141	39

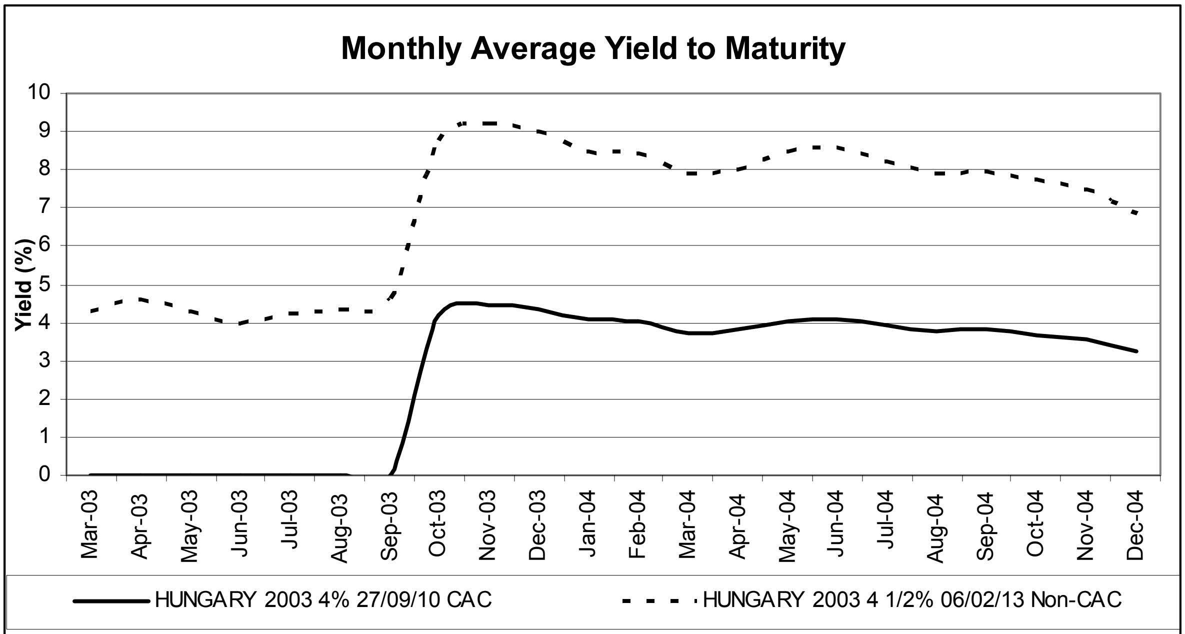
Source: Capital Data; and IMF staff estimates (as of March 23, 2004).

Source: Progress Report to the International Monetary and Financial Committee on Crisis Resolution, IMF, April 20, 2004

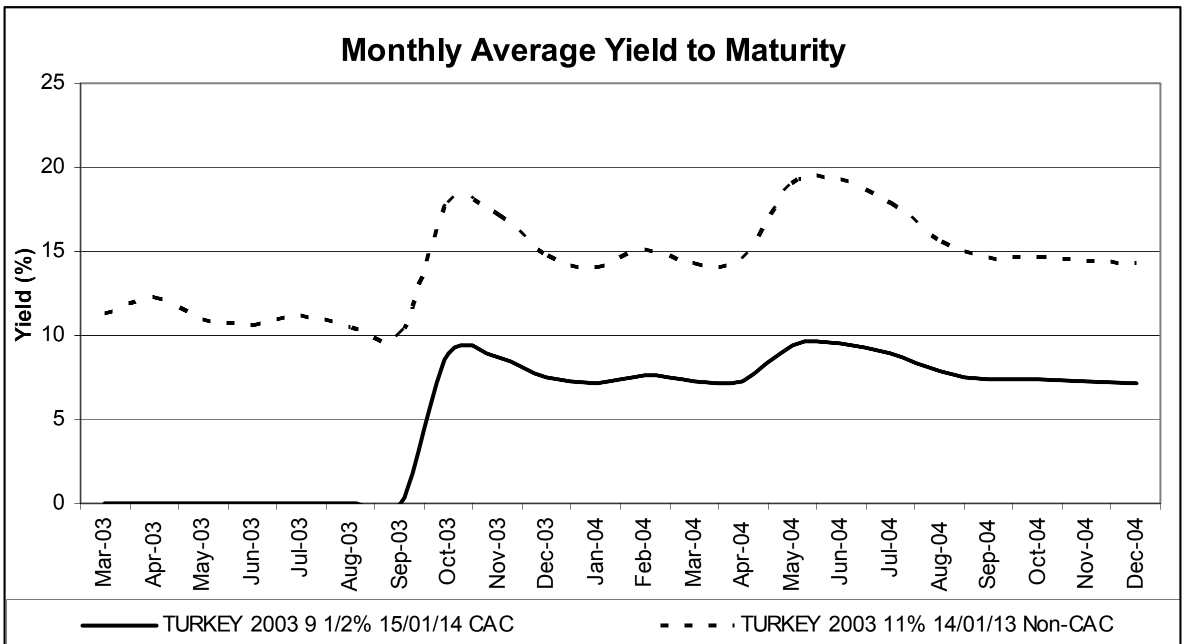
4. Evolution of the Yield to Maturity of two sovereign issues (CAC and non-CAC) in selected countries



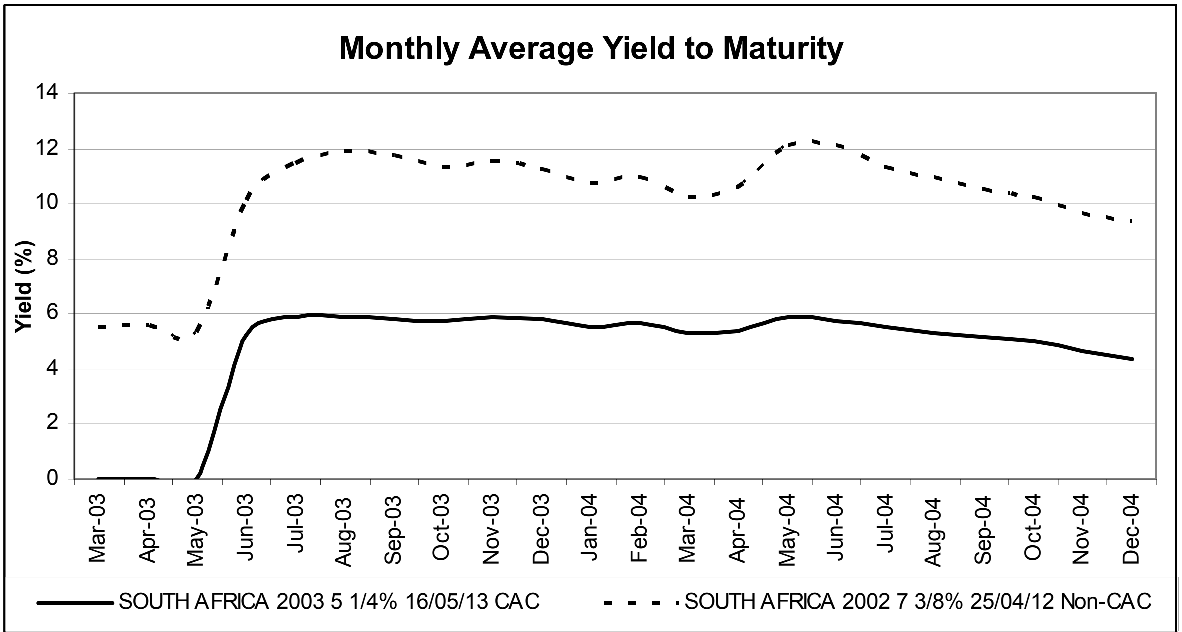
Source: Thomson Financial, Datastream



Source: Thomson Financial, Datastream



Source: Thomson Financial, Datastream



Source: Thomson Financial, Datastream

5. Foreign Currency Long-term Debt

Foreign Currency Long-term Debt				
	Mexico	**Hungary**	**Turkey**	**South Africa**
Moody's	Baa2	A1	B1	Baa2
Date	06-Feb-02	Nov 12,02	21-Dec-00	14-Oct-04
S&P	BBB-	A-	BB-	BBB
Date	07-Feb-02	19-Dec-00	17-Aug-04	07-May-03
Fitch	BBB-	A-	B+	BBB
Date	15-Jan-02	16-Jan-04	09-Feb-04	02-May-03
Source: Bloomberg				

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