HSBC and the UN Financing for Development Office

Panel on Emerging Market Debt: Is the System Working Well Enough?

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Panelists included David Beers (Standard and Poors), Lee Buchheit (Cleary Gottlieb Steen and Hamilton) , Benu Schneider (UN-FFDO), Professor Marcus Miller (University

regarding sound macroeconomic policies and financial sector reforms, coupled with improved governance.

The G20 response to the crisis

The response of the G20 to the crisis was the provision of new resources to the IMF and flexibility in the Debt Sustainability Framework for low-income countries. The role of the private sector in crisis prevention and management remains largely ignored in the present discussions on crisis preventio

Despite the formal request by bondholders to

support to EMs with the IMF and EU should look after the problems in Central European countries. Much work needs to be carried out in the reform of the financial architecture.

Mr. Robert Gray

Mr. Robert Gray briefed participants on the work of the Institute of International Finance (IIF) in his capacity as Chairman of the Working Group on Crisis Prevention and Resolution:

The IIF has advanced awareness among emerging market officials of the benefits of implementing sovereign investor relations programs (IRPs). Since the publication of the first assessment on investor relations practices by sovereign issuers back in November 2005 by the IIF, progress has been made in improving relations between country authorities and investors. A number of issuers have found the benchmark offered by the IIF useful, with many of these countries being now aware of the benefits of differentiating themselves through enhanced investor relations practices, and data/information provision. The Institute is currently in talks with authorities of two sovereigns that are particularly keen of benefiting from the IIF expertise in this important crisis prevention area.

Awareness of IRPs complement other areas of the IIF work, including advancing the implementation of the Principles for Stable Capital Flows and Sovereign Debt Restructuring in Emerging Markets (the Principles). Mr. Gray informed participants of important advances to implement the Principles through the operations of the Principles Consultative Group (PCG). The PCG, comprised of a diverse mix of creditors, investors and emerging markets officials, has been monitoring and encouraging practical implementation of the Principles in a number of country cases, including ways to address funding challenges for emerging market economies, particularly for EM corporate borrowers.

Mr. Gray briefed participants on recent Innovation in Collective Action Clauses (CACs). Together with the successful implementation of the Principles, CACs support a market-based approach to facilitating a prompt and equitable restructuring. Two recent sovereign bond issuances were mentioned in the meeting. In December 2007, Gabon tapped the Eurobond market with a ten-year, $1 billion bond (governed by New York law) with a coupon of 8.2 percent, its first bond issuance in the international market. Gabon's note secured more flexibility in its amendment provisions than the 2003 Mexican bond issuance, and the CAC implies a combination of English and New York law. In September 2007 Ghana secured $750 million for ten years with a coupon of 8.5 percent. Unlike Gabon's bonds, Ghana's issuance was governed by English law. Ghana's amendment provisions mirror Gabon's combination of New York and English law conventions. Creditors can vote to change Reserve Matters in writing, which requires 75 percent of outstanding principal, or meet and amend with 75 percent of the quorum (reduced to one-third by postponement).

Evolution on Creditor Committees

The Best Practices for the Formation and Operation of Creditor Committees are based on extensive discussions among members of the IIF s Working Group on Crisis Resolution. Additionally, these best practices have been broadly endorsed by the Principles Consultative Group. The PCG s input has been important in the shaping of these best practices in order to encourage participation from creditors who support the Principles. The Principles recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors.

Briefing on New Work on Debt Reconciliation of Past-due Sovereign Debt

Mr. Gray briefed participants on the progress of the IIF Working on Reconciliation of Past-due Sovereign Debt. The purpose of the reconciliation of past-due sovereign debt is to develop a methodology that can be used by the private sector to estimate the outstanding stock of commercial debt that is long-due. The process of reconciliation of distress debt can be painstaking and time consuming. Commercial debt can be held by a broad range of creditors including suppliers, trading firms, banks and other financial institutions, which complicate the debt reconciliation process. The purpose of the reconciliation of past-due sovereign debt is to develop a methodology that can be used by the private sector to estimate the outstanding stock of commercial debt that is long-due.

The benefits of an agreed methodology are straightforward. For the country facing rising arrears, it facilitates the assessment of the debt stock stance that will identify the magnitude of the debt overhang problem at stake. It enables countries eligible for debt relief accessing public funds in support of macroeconomic stabilization efforts and a venue for addressing relations with commercial creditors through rescheduling or partial debt forgiveness. In the cases mentioned above, the process of settling claims with private creditors followed after the agreement with Paris Club creditors. For creditors, a methodology that makes their claims comparable enhances the transparency of the process, minimizes misunderstandings among creditors, and increases the likelihood of a process considered in good faith.