JUST ENOUGH, JUST IN TIME

Improving Sovereign Debt Restructuring for Creditors, Debtors and Citizens

Richard Gitlin and Brett House

SPECIAL REPORT

JUST ENOUGH, JUST IN TIME

Improving Sovereign Debt Restructuring for Creditors, Debtors and Citizens

Richard Gitlin and Brett House

SPECIAL REPORT

67 Erb Street West
Waterloo, Ontario N2L 6C2
Canada
tel +1 519 885 2444 fax + 1 519 885 5450
www.cigionline.org

TABLE OF CONTENTS

ABOUT THE PROGRAM

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China's role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

ABOUT THE AUTHORS

Richard Gitlin joined the Centre for International Governance Innovation (CIGI) as a senior fellow in June 2013. He played a leading role in the development of practices and procedures for successfully resolving complex global restructuring and insolvency cases. Richard has served as adviser to several countries regarding the modernization of their insolvency laws, including Canada, Korea, Indonesia, Mexico and the United States, as well as the International Monetary Fund (IMF) in connection with corporate and sovereign restructuring reform.

Richard was a co-founder of the American Bankruptcy Institute, which began operations in 1982; he went on to serve as its president from 1987 to 1992. He also participated in the founding of the International Association of Restructuring, Insolvency & Bankruptcy Professionals (INSOL), which brings together 44 national-level insolvency membership associations, and for which he also served as president from 1991 to 1993. Richard was chair of the American College of Bankruptcy, an honorary association of bankruptcy and insolvency professionals, from 1995 to 1997.

Richard is currently chairman of Gitlin & Company, LLC, which advises on restructurings of corporations, banks and sovereigns. Prior to establishing Gitlin & Company, LLC, he was the president of Hebb Gitlin, PC, a firm he co-founded in 1973 in Hartford, Connecticut, to provide strategic and legal advice in global bankruptcy and business restructurings.

Brett House is a senior fellow at the Jeanne Sauvé Foundation and a visiting scholar at Massey College, University of Toronto. He is also an adviser at Tau Investment Management, a startup impact fund. This special report was initiated during his tenure as a senior fellow at CIGI.

Brett was previously a global strategist at Woodbine Capital Advisors, a New York-based global macro hedge fund. Prior to joining Woodbine, he was principal adviser on economic, financial and development issues in the Executive Office of the United Nations Secretary-General; policy adviser at the UN Development Programme; and senior macroeconomist at The Earth Institute, Columbia University. From 2000 to 2007, he was an economist at the IMF, where he worked on a wide range of major emerging and frontier markets, several sovereign debt restructurings, the development of new IMF lending products and a variety of policy issues.

Brett held earlier positions as director of studies and stipendiary lecturer at Keble College, University of Oxford, where he was a Rhodes Scholar, and lecturer in economics at the University of Cape Town, where he was a Rotary Scholar. He also worked in the Capital Markets Department of the World Bank and emerging markets fixed-income sales and trading with Goldman Sachs International in London. Brett is a member of the UN Experts Group on Sovereign Debt Restructuring and a Young Global Leader of the World Economic Forum. He received the 2014 Québec Notable Award in finance for contributions to the sector and the community.

ACRONYMS

BIS	Bank for International Settlements
BRICS	Brazil, Russia, India, China, South Africa
CAC	collective action clause
CDS	credit default swaps
cocos	contingent convertible bonds
CIEPR	Committee on International Economic Policy Reform
CIGI	Centre for International Governance Innovation
CSO	civil society organization
DIP	debtor-in-possession
DSA	debt sustainability analysis
EAC	Exceptional Access Criteria
EAP	Exceptional Access Policy
ECB	European Central Bank
EEAG	European Economic Advisory Group
ES-Bies	Euro-Safe Bonds
ESM	European Stability Mechanism
FCL	Flexible Credit Line
G10	Group of Ten
G20	Group of Twenty
HIPC	Heavily Indebted Poor Countries
ICMA	International Capital Markets Association
ICSID	International Centre for Settlement of Investment Disputes
IFI	international financial institutions
IIF	Institute of International Finance
IMF	International Monetary Fund
INET	Institute for New Economic Thinking
ISDA	International Swaps and Derivatives Association
LIA	lending into arrears
MDRI	Multilateral Debt Relief Initiative
NPV	net present value
OECD	Organisation for Economic Co-operation and Development
PADRE	Politically Acceptable Debt Restructuring in the Euro Zone
PBoC	People's Bank of China
PCS	preferred creditor status
PLL	Precautionary Liquidity Line
QE	quantitative easing
SDF	Sovereign Debt Forum
SDRM	Sovereign Debt Restructuring Mechanism
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
WTO	World Trade Organization

EXECUTIVE SUMMARY

After a period of quiescence during the final leg of the Great Moderation from 2003 to 2008, recent international financial turmoil has refocused attention on the risks posed by severe sovereign debt crises and weaknesses in our approaches to restructuring sovereign debt. Following the 2003 rejection of the International Monetary Fund's (IMF's) Sovereign Debt Restructuring Mechanism (SDRM) and the ensuing push to install collective action clauses (CACs) in New York-law bonds, sovereign debt restructuring was not a major discussion topic in financial policy circles. That changed in late 2009, when the emergence of market tensions around Greece and the recognition that the country was likely insolvent revived interest in improving the way the world deals with sovereign debt distress.

Since early 2010, the risks associated with sovereign debt crises have driven a range of debt-related policy proposals and actions in individual economies, across regions and at the international financial institutions (IFIs). While some very useful and necessary incremental first reform steps have been taken, these have not yet produced a more efficient, effective or resilient international framework for handling severe sovereign debt crises and effecting sovereign debt workouts. In contrast, some institutional and policy changes made in the heat of the euro-zone crisis have raised as many questions as they have resolved. Old policy ideas are also being resurrected and configured in new ways for current challenges. After years of substantial fiscal stimulus and exceptional monetary policies, high debt burdens across the advanced economies, fears of secular stagnation, signs of an imminent increase in US borrowing costs and deteriorating demographics together make a compelling case for concerted action to improve international arrangements for dealing with distressed sovereign debt.

In 2013, the IMF led a sea change in thinking about the core problem with sovereign debt restructuring that needs to be addressed. After decades dominated by concerns that restructuring must be kept costly because debtor sovereigns will otherwise tend to default gratuitously, without undertaking substantial adjustment, IMF research clarified that, instead, countries tend to wait far too long to address their sovereign debt problems, and when they do, they tackle them only superficially in order to speed their return to financial markets. More succinctly, rather than restructuring "too much, too soon," sovereigns tend to restructure "too little, too late." Neither outcome is optimal and additional work is necessary to create the structures and incentives to increase the probability that "just enough, just in time" becomes the new normal of sovereign debt restructuring.

To assist in moving this agenda forward, the Centre for International Governance Innovation (CIGI) undertook in February 2012 an intensive process of outreach and consultation with a wide range of stakeholders on prospects for improving on existing approaches to handling sovereign debt distress. These discussions began in a conference jointly organized with the Institute for New Economic Thinking (INET) at CIGI from February 24 to 26, and extended through scores of regional and sectoral meetings over the ensuing two and a half years with national authorities, international organizations, legal experts, academics, civil society organizations and private capital-market actors, with a particular focus on soliciting views regarding CIGI's proposal for the creation of a Sovereign Debt Forum (SDF).

This special report takes the measure of these discussions and concurrent developments, since early 2012, aimed at improving the world's infrastructure and technologies for sovereign financial crisis management and debt restructuring. The report does not advocate for a particular set of reforms or a single path of action. Instead, it reviews the diverse perspectives raised in CIGI's SDF consultations, highlights considerations for the next steps in the reform process and identifies some pathways by which pragmatic reform programs could be crafted that would likely elicit support for their implementation.

INTRODUCTION

The global financial crisis, the subsequent euro-zone crisis and their after-effects have put a spotlight back on the ways in which the world works to anticipate, prevent and respond to sovereign debt distress. These crises have laid bare the inadequacies in the current "non-system" for addressing sovereign debt problems and have sharpened the need to make sovereign debt restructuring, in particular for debt issued under foreign law, work better. Sovereign debt defaults, workouts and restructurings have been a feature of the global economy since Greek city-state defaults in 300 BC. Twenty-four centuries later, we don't yet have a fully effective and efficient way to deal with government insolvency. The abatement in global economic distress following the initial phase of the crisis opened a window of opportunity to move beyond talk and to work for change. During 2014, the world took some important, incremental steps to make the handling of sovereign debt crises more effective for creditors, sovereign debtors and citizens. This reform momentum needs to be sustained and built with strategic intent.

Inspired by a crisis-driven sense of urgency and sustained by the possibility of progress, CIGI launched in February 2012 a wide-ranging consultative process on renovating and improving the world's financial-crisis response and sovereign debt-restructuring mechanisms, with a particular focus on CIGI's proposal for a Sovereign Debt Forum (SDF) (see Box 1). CIGI's discussions have elicited views from a diverse set of stakeholders and they have shone light on a number of options for action. This report examines CIGI's SDF consultations and related developments. It maps a diversity of perspectives on possible next steps on sovereign debt restructuring and it considers feasible alliances for reform, including routes to implementation of the SDF. The report provides an analytical account of the content of discussions with experts and practitioners in the field and is intentionally forward looking in its focus on practical next steps. It does not provide an extensive review of the history of sovereign debt restructuring nor a primer on recent developments, which can be found, in, *inter alia*, Susan Schadler (2012), IMF (2013a), Benu Schneider (2014), James Haley (2014) and Skylar Brooks and Domenico Lombardi (2014).

The remainder of the report is organized as follows. It begins with some analysis of the urgent need for further reform, a diagnosis of the gaps in the current non-system and a review of stakeholder views on these issues. It then provides a structured discussion of reform proposals raised in CIGI's SDF consultations. Finally, the paper concludes by tracing some possible routes toward the implementation of these proposals and the achievement of a more balanced, effective and efficient approach to dealing with the sovereign debt and related financial challenges that lie ahead.

Box 1: Consultations on the Sovereign Debt Forum (2012–2014)

In late 2011, as Greece began moving toward a formal debt restructuring process, CIGI and INET recognized that unsustainable sovereign debt has the potential to be one of the greatest threats to global financial and political stability in the twenty-first century. Containing this threat requires proactive action ahead of the next crisis. CIGI and INET together convened a conference in February 2012 that brought together experts, practitioners and eminent persons from around the world to take a fresh look at global legal and institutional frameworks for handling sovereign debt distress and restructurings. The main findings were summarized in Schadler (2012). Additional meetings that brought together diverse stakeholders were convened in 2012 under the auspices of the United Nations Expert Group Meetings on Sovereign Debt Restructuring, in conjunction with the Financing for Development Office of the UN Department of Economic and Social Affairs (UNDESA). CIGI continued to participate actively in additional Expert Group Meetings convened by UNDESA in collaboration with other partners during 2013 and 2014. Reports on these meetings can be found at www.un.org/esa/ffd/.

CIGI extended these discussions from 2012 to 2014 in order to, *inter alia*, advance the SDF proposal through a series of consultations across a range of financial and political centres in collaboration with national authorities, international organizations, legal experts, academics, civil society organizations and private capital market buy-side and sell-side participants from advanced, emerging and frontier economies. Since sovereign financial crisis management and debt restructuring issues are as sensitive as they are timely, these meetings were conducted exclusively under the Chatham House Rule in order to ensure candour and productive exchanges. As a result, none of the opinions expressed in these consultations and described in this report are directly attributed. Meetings ranged from large presentations to more intimate gatherings in an intentional fashion to ensure that stakeholders consulted were able to engage in a free and comprehensive manner.

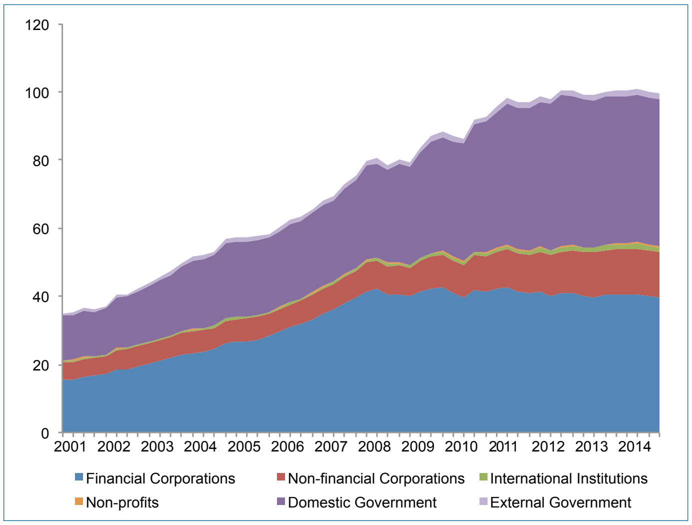
CIGI's consultations were designed to discuss the broad sweep of possible reforms — including no reform at all — with at least some focused discussion of CIGI's SDF proposal (Gitlin and House 2013; 2014a) and Susan Schadler's (2013; 2014) reviews of crisis-induced changes to the IMF's Exceptional Access Criteria. James Haley's (2014) consideration of policy options, Miranda Xafa's (2014a) dissection of the Greece restructuring, Brett House, Hongying Wang and Miranda Xafa's (2014) look at some Chinese thinking on sovereign and debt issues, and a distillation of African views by Skylar Brooks, Domenico Lombardi and Ezra Suruma (2014) further informed CIGI's conversations. The consultations were facilitated to parse among possible reforms and to identify a pragmatic plan of action. Although CIGI's work under the Management of Severe Sovereign Debt Crises research theme continues on a number of diverse fronts, the SDF consultations on which this report culminated in late 2014 with "Frameworks for Sovereign Debt Restructuring," a conference at Columbia University under the sponsorship of the Initiative for Policy Dialogue, the Center for Global Economic Governance, CIGI and UNDESA, and a panel on financing for development at the United Nations. A complete list of meetings under CIGI's consultation process is provided in the Annex. Additional details on CIGI's Management of Severe Sovereign Debt Crises theme can be found at www.cigionline.org/thematic/management-of-severe-sovereign-debt-crises.

In June 2014, CIGI announced its collaboration with New Rules for Global Finance, a non-governmental organization, to engage in a comprehensive set of global consultations on sovereign debt restructuring focused on civil society organizations (CSOs) for one year, beginning July 1, 2014. This process will culminate with the release of a final report at the IMF-World Bank Annual Meetings in Lima, Peru, in October 2015 that will more fully lay out the views of CSOs as a distinct interest group.

NO TIME TO WAIT: A MOUNTAIN OF DEBT AND VULNERABILITIES

The need to improve the tools we use to deal with sovereign debt crises has been made particularly urgent by the accumulation of massive public debt stocks and balance-sheet vulnerabilities in the wake of the 2008 financial crisis and the 2010 euro-zone crisis (Dobbs et al. 2015). Following the failures of Bear Stearns in 2007 and Lehman Brothers in 2008, central banks and finance ministries pumped massive amounts of liquidity into credit markets to prevent their breakdown. Concerns raised about Greece's solvency in late 2009, and weak activity in many other real economies, resulted in further application of exceptional monetary and fiscal measures in the ensuing years. As the Bank for International Settlements (BIS) highlights (BIS 2014a; 2014b), private debt issuance more or less ground to a halt in 2007 and public debt then expanded massively, taking the global debt securities market from just over US$60 trillion in 2007 to about US$100 trillion by 2013 (see Figure 1).

Figure 1: Global Debt Securities Market (in US$ trillion)



Source: BIS (2015).

The mountain of sovereign debt created in recent years leaves little room to cushion the impact of a policy mistake or respond to a new exogenous shock. Global vulnerabilities extend far beyond Europe's continued saga with Greece. The aggregate debt-GDP ratio for all advanced countries has returned to historic highs above 100 percent (Figure 2) — a level that in the past has been associated with heightened geopolitical tensions, liquidity problems and insolvency (Reinhart and Rogoff 2009; 2011; 2013; James 2014). This situation is not set to reverse itself quickly. Globally, real activity is not rebounding strongly as fiscal stimulus ebbs and investment in public infrastructure falls to new lows (Summers 2015; Wessel 2015), despite IMF (2014d) evidence that every dollar of well-planned public investment can increase total output threefold. More than 20 central banks have returned to cutting interest rates and easing monetary conditions (BIS 2015; also see Table 1). Whether these are genuine responses to weakness in domestic economies or cloaked attempts to devalue against the US dollar in a diffuse currency war, uncoordinated monetary easing of this sort raises the possibility of beggar-thy-neighbour trade protectionism that could cut global growth prospects further (Rajan 2014).

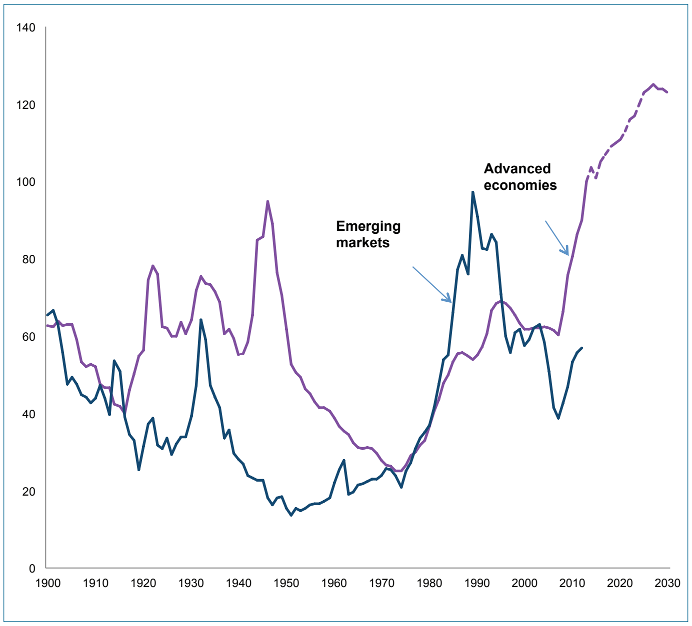
Medium-term secular trends imply that heavily indebted developed-economy sovereigns will not find the years ahead much easier. A gathering imperfect storm of insufficient stimulus measures, impaired credit-creation mechanisms, deleveraging across a range of sectoral balance sheets (Koo 2014) and aging populations could entrench secular stagnation (Summers 2013; 2014a; Lagarde 2015a) and make real debt burdens even more onerous across advanced economies. The GDP denominator in high debt-GDP ratios is unlikely to bring down these ratios any time soon. At the same time, there's little room to pare the debt numerator. The IMF (2011b) shows that, *ceteris paribus*, many advanced countries would need fiscal surpluses well in excess of recent decanal averages

Table 1: A New Round of Central Bank Rate Cuts

Date	Country	Rate cut or accommodative policy action
December 10, 2014	Iceland	50 bps to 5.25%
December 11, 2015	Norway	25 bps to 1.25%
December 16, 2015	Morocco	25 bps to 2.50%
January 1, 2015	Uzbekistan	100 bps to 9.00%
January 7, 2015	Romania	25 bps to 2.50%
January 15, 2015	Switzerland	50 bps to –1.25%
January 15, 2015	Egypt	50 bps overnight rate to 8.75%, 50 bps lending rate to 9.75%
January 15, 2015	India	25 bps to 7.75%
January 15, 2015	Peru	25 bps to 3.50%
January 19, 2015	Denmark	15 bps to –0.20%
January 20, 2015	Turkey	50 bps to 7.75%
January 21, 2015	Canada	25 bps to 0.75%
January 22, 2015	Euro zone	European Central Bank (ECB) announces quantitative easing program of EUR 600 billion/month
January 22, 2015	Denmark	15 bps to –0.35%
January 24, 2015	Pakistan	100 bp to 8.50%
January 28, 2015	Singapore	Reduced slope of policy band for SGD nominal effective exchange rate
January 28, 2015	Albania	25 bps to 2.00%
January 29, 2015	Denmark	15 bps to –0.50%
January 30, 2015	Russia	200 bps to 15.00%
February 2, 2015	Jordan	25 bps to 4.00%
February 3, 2015	India	25 bps to 7.50%
February 3, 2015	Australia	25 bps to 2.25%
February 4, 2015	China	Cut reserve requirement by 50 bps
February 4, 2015	Romania	25 bps to 2.00%
February 5, 2015	Denmark	25 bps cut to –0.75%, suspends government bond auctions
February 13, 2015	Sweden	10 bps to –0.10%, announces SEK 10 billion government bond purchases
February 17, 2015	Indonesia	25 bps cuts, Bank of Indonesia rate to 7.50%
February 18, 2015	Botswana	100 bps to 6.50%
February 18, 2015	Japan	Bank of Japan votes to continue asset purchases
February 23, 2015	Israel	15 bps to 0.10%
February 25, 2015	Turkey	25 bps to 7.50%
February 28, 2015	China	25 bps to 5.35%
March 4, 2015	Poland	50 bps to 1.50%
March 4, 2015	India	25 bps to 7.50%
March 11, 2015	Thailand	25 bps to 1.75%
March 18, 2015	Sweden	15 bps to –0.25%, expands government bond purchases by SEK 30 billion

Source: Bloomberg L.P. (2015a). As of end March 2015.

Figure 2: Global Debt-GDP Ratios (in percent, unweighted ratios)



Sources: Reinhart, Reinhart and Rogoff 2012, IMF 2015, authors' calculations.

in order to bring debt-GDP ratios down to 60 percent of GDP from their existing levels over the next 10 years. Where countries have prepared plans to achieve such surpluses, they will be technically and politically difficult to execute, as Barry Eichengreen and Ugo Panizza (2014) underscore. Moreover, if all or even most advanced countries target fiscal austerity at the same time, global growth prospects would be dented further and revenue projections would likely not be realized. The Organisation for Economic Co-operation and Development (OECD) (2013) and IMF (2014b) have projected primary deficits in the neighbourhood of 3.5 percent of GDP over the next five to 10 years, as age-related health, long-term care and pension spending are set to expand by an average of between 5.5 and 10 percent of GDP in advanced economies (IMF 2012c; 2014a). Running these projections through a basic model built on the IMF's debt sustainability analysis (DSA) template implies that advanced-country debt-GDP ratios could continue to rise to over 120 percent of GDP by 2030 (see Figure 2).

Past experience implies that at these debt levels advanced sovereigns would likely face substantially increased risks of default. As Carmen Reinhart and Kenneth Rogoff (2009) show, sovereign debt restructuring has historically been more the norm than the exception: in nearly any given year over the last century, some country has been in default or in the process of restructuring its debt. At current and expected advanced-country debt levels, sovereign debt crises look nearly inevitable when set against past developments. Of course, it's possible that some combination of tougher capital adequacy standards under

Table 2: African Frontier Market External Debt Issuance (excluding private placements)

Year	Country	Yield (%)	Years	US$ millions
2006	Seychelles	9.467	5	200
2007	Gabon	8.250	10	1,000
	Democratic Republic of the Congo	8.770	22	480
	Ghana	8.500	10	750
2009	Senegal	9.473	5	200
2010	Seychelles*	8.690	16	168
	Côte d'Ivoire*	5.625	22	2,300
2011	Nigeria	7.126	10	500
	Senegal	9.125	10	500
	Namibia	5.835	10	500
2012	Zambia	5.625	10	750
2013	Rwanda	6.746	10	400
	Nigeria	5.750	5	500
	Nigeria	6.625	10	500
	Ghana	7.875	10	750
	Gabon	6.375	11	1,500
2014	Zambia	8.625	10	1,000
	Kenya	5.875	5	500
	Kenya	6.875	10	1,500
	Côte d'Ivoire	5.625	10	750
	Senegal	6.625	10	500
	Ghana	8.125	12	1,000
	Ethiopia	6.625	10	1,000

Source: Bloomberg L.P. (2015b). As of end March 2015. *Issued as part of a debt exchange within a post-default restructuring.

Basel III and related local legislation will stoke demand for near risk-free assets and sustain bids for new sovereign debt issuance. But it would be deeply imprudent to orient international economic policy making around this faint hope. Moreover, as demonstrated by the recent crises in Iceland, Ireland and Spain, and the late-1990s Asian crisis before them, private-sector debt problems and balance-sheet mismatches can quickly morph into sovereign debt problems. National accounts likely understate the extent to which corporate foreign-currency borrowing has expanded through issuance in the domestic markets of overseas subsidiaries (Shin and Zhao 2013; Wheatley 2014; Nordvig and Fritz 2014). To paraphrase Reinhart and Rogoff, the next time is unlikely to be different.

The fact that much of the recent run-up in advanced-country debt is linked to domestic issuance should provide limited comfort. Although domestically denominated debt can be inflated away, and debt issued under domestic law is typically easier to restructure than foreign-law debt, domestic debt can still be a source of substantial vulnerabilities (Panizza 2007), although these weaknesses

Table 3: Incipient Sovereign Debt Distress in Heavily Indebted Poor Countries (HIPC)

High Threat	Moderate Threat	
Afghanistan	Bhutan	Burkina Faso
Burundi	Cameroon	Cape Verde
Central African Republic	Democratic Republic of the Congo	Côte d'Ivoire
Comoros	Dominica	The Gambia
Chad	Ghana	Guinea
Djibuti	Guinea-Bissau	Guyana
Grenada	Kyrgyz Rebublic	Lao People's Democratic Republic
Haiti	Lesotho	Malawi
Kiribati	Mali	Mauritania
Maldives	Mongolia	Mozambique
Marshall Islands	Nicaragua	Niger
Samoa	Sierra Leone	Solomon Islands
São Tome and Principe	St Lucia	St Vincent and the Grenadines
Tajikistan	Togo	Tonga
	Tuvalu	Yemen

Sources: IMF (2014e); Kaiser (2014).

may be less pronounced than those engendered by foreign-currency and foreign-law debt (Dell'Erba, Hausmann and Panizza 2013). Cross-sector and cross-border maturity and currency mismatches in private and public domestic debt stocks can expose sovereigns to substantial risks, some of which precipitated sovereign debt crises in the late 1990s and early 2000s, as detailed by Christoph Rosenberg et al. (2005).

One of the few ways in which the next set of sovereign debt crises could genuinely be different is in the much wider range of countries that could be involved. Several relatively poor countries, rebranded as "frontier markets," have in recent years made their debut issues on international capital markets with offerings that have been multiple times oversubscribed as investors eschew meaningful distinctions in credit quality in their search for yield. Ghana was able to issue an oversubscribed US$1 billion bond in September 2014, one month after its decision to seek help from the IMF. Even Ecuador returned to capital markets in 2014 after capricious unilateral defaults in 2008 and 2009 on international obligations it considered "illegitimate." Until 2006, South Africa was the only Sub-Saharan African country that had issued an external sovereign bond. Since then, 12 Sub-Saharan African countries have issued more than US$17 billion in external bond debt (see Table 2); three more countries have made private external placements during this time: Mozambique and Angola (2012), and Tanzania (2013). Eight of these African countries had most of their external debt written off only a few years earlier under the HIPC and Multilateral Debt

Relief Initiative (MDRI) restructuring programs. Some of these countries are indeed much more creditworthy than they were even a decade ago: democratic governance, economic performance and natural resource management have improved markedly in many of them. But all frontier markets face a substantial risk that they will encounter higher interest rates when it comes time to roll over their recent bond issues. Even now, some 40 poor developing countries, many of whom benefited from HIPC and MDRI debt relief, are in medium to severe debt distress (Table 3; IMF 2014e; Kaiser 2014). The next debt crisis is already brewing.

The end of US quantitative easing (QE) and signals of a coming Federal Reserve rate increase make efforts to improve the non-system of sovereign debt restructuring particularly time sensitive (Chung et al. 2014). Although there is evidence that good policy regimes provide some insulation against taper-induced pullbacks (Mishra et al. 2014), the "taper tantrum" of 2013 tended to hit emerging markets indiscriminately (Eichengreen and Gupta 2013) and, in some cases, countries with better policy frameworks saw relatively larger outflows as these economies also tend to have the most liquid, easily exited markets. Looking at earlier rounds of Fed tightening, Joseph Capurso (2014) notes the collateral damage on emerging markets is often most intense about one year after Fed policy has been made less accommodative, particularly in countries with large current-account deficits and banking systems particularly dependent on foreign wholesale financing. The Institute of International Finance's (IIF's) models anticipate three or four emerging-markets crises each year in which the US Fed tightens monetary policy, up from the 40-year average of 1.7 crises each year (IIF 2015). The BIS (2014b) has already sounded warnings about the impact of higher US yields and a stronger dollar on global debt stocks. In March 2015, the IMF's managing director, Christine Lagarde (2015b), cautioned that the 2013 tantrum was not a one-off episode and called on both advanced and emerging economies to get prepared for increased volatility ahead.

Solving the financing problems of emerging markets ultimately requires better domestic policy regimes to win the confidence of their own investors: improvements in debt restructuring systems deal with symptoms rather than the root causes of sovereign debt distress. Over long spans, the world's main concern shouldn't be temporary pullbacks during yield increases in the United States, but rather the secular tendency for capital to flow in the wrong direction between advanced and emerging economies: more capital consistently heads out of emerging markets than into them. Rather than a home bias, emerging-market public investors, in particular sovereign wealth funds and central bank reserve managers, tend to maintain a foreign bias that goes hand-in-hand with the ongoing stain of "original sin," the inability of many emerging-market sovereigns to borrow domestically or abroad over long tenors at fixed rates in their own currency (Eichengreen, Hausmann and Panizza 2002; 2007). Capurso (2014) notes that emerging-market public investors' assets under management rose from US$3 trillion in 2007 to US$11 trillion in 2012, with most of this devoted to advanced economies. The roughly US$8 trillion in flows from emerging markets to advanced economies allocated by emerging market asset managers from 2007 to 2012 was about 10 times greater than the US$0.8 trillion in developed-market flows pushed by the search for yield into emerging markets during this five-year span. Any improvement in sovereign debt restructuring regimes should, therefore, be accompanied by better ongoing domestic economic policy making in emerging markets, rather than continued pressure on the IMF to endorse capital controls (IMF 2011a; 2012a).

DIAGNOSIS: THE PROBLEMS THAT NEED SOLUTIONS

Efforts to improve the ways sovereign debt problems get resolved need to be grounded in a clear diagnosis of the deficiencies that should be addressed by reform. Although impairments in both sovereign domestic and foreign debt have been commonplace events for centuries, most of the difficulties that continue to bedevil sovereign debt restructuring efforts stem from the fact that the key features of domestic corporate and personal bankruptcy processes, which virtually no national legal system lacks, have not been replicated for sovereigns at the international level. Attempts to create an international statutory insolvency process for sovereigns have repeatedly failed to find sufficient global political support. As a result, incremental, piecemeal initiatives, usually in response to specific problems and events, have been the hallmark of decades of work to make the world's approaches to dealing with sovereign debt distress more effective. This has resulted in an ad hoc non-system for sovereign debt restructuring.

From the early twentieth century onward, crises have habitually been the episodic drivers of reform (Das, Papaioannou and Trebesch 2012; Rogoff and Zettelmeyer 2002; Tomz 2007). International efforts to deal with Germany's reparation payments and related financial instability following World War I resulted in the 1924 Dawes Plan, the 1929 Young Plan and the creation in 1930 of the BIS as a central trustee and fiscal agent for Germany's debt. This first multilateral attempt to grapple with sovereign debt problems quickly went awry in 1931 as the then-extant international system of lending collapsed, the gold standard was abandoned and debt payments were suspended. From 1934 up to the present, the BIS has provided short-term liquidity facilities to sovereigns and settlement activities for a variety of financing programs. Neither the BIS nor the IMF, which eclipsed the BIS after the wars as a provider of emergency liquidity, were endowed with direct powers to facilitate sovereign debt restructurings, but the IMF has often precipitated restructurings as a condition for its medium-term financial support. There has been little effort since the 1930s to expand on the BIS's potential role as a trustee in improved sovereign debt restructuring schemes (Bederman 1988).

Periodic crisis-influenced measures to address this lacuna in the international financial system have tended to result in limited, stop-gap responses. The Paris Club "non-institution" for treating the claims of sovereign bilateral creditors was convened in 1956 in response to Argentina's debt-servicing problems: Argentina agreed to meet its foreign public creditors at the French finance ministry and bilateral official creditors have convened there ever since to treat distressed debt in more than 430 cases. The London Club first came together in 1976 when commercial banks met to reschedule the then-Zaire's sovereign debt; the club, along with the IIF, created in 1983, has since provided an organizing node for some private creditors in restructuring processes. The Latin American debt crisis of the 1980s elicited the Baker Plan and Brady Plan, which resulted in the first restructuring of impaired bank loans into various forms of tradable fixed-income securities. This heralded the rise of bearer bonds as the increasingly dominant instrument for debt financing in emerging markets. The crises of the 1990s in Mexico, Russia, Brazil and East Asia, combined with an increasingly fragmented creditor community as bearer bonds became more ubiquitous and diversely held, brought calls for a more orderly approach to treating impaired sovereign debt. This led directly to advocacy for more widespread use of collective action clauses (CACs) (G10 1996) in debt contracts and the IMF's SDRM proposal to amend the Fund's founding articles to create a statutory framework for sovereign debt treatments (Krueger 2001). Once the SDRM proposal was rejected in 2003 in favour of the more minimalist insertion of CACs into New York-law bonds (they have been a common feature of English-law bonds since the late 1800s), the relatively stable global financial conditions that ensued until 2008 idled further reform.

This gradualist, evolutionary process has left us with a non-system marked by a number of weaknesses. Recent initiatives by the International Capital Markets Association (ICMA) and IMF (ICMA 2014; IMF 2014c) to improve CACs, and the IMF's (2014b) move to expand the range of debt treatment options (see Box 2) under the adjustment programs it supports, have curtailed these problems only slightly. The remainder of this section details the issues, identified over the course of CIGI's consultative process, that concerted reform of this non-system should address. More specifically, these problems are grouped as follows: the current non-system is not designed to achieve optimal outcomes; too many features of the existing non-system are anachronisms from the last century; insufficient incentives and predictability exist to prevent debt problems in first place; most debt restructurings provide too little relief and happen too late; the possibilities of reforming existing institutions and processes are politically constrained; the political and democratic legitimacy of the current non-system is weak; and no standing body exists for continuous refinement and reform of sovereign debt restructuring. Calling these problems out should not be read as an implicit critique of past efforts to resolve them — though such a criticism may be merited in some cases — but rather an acknowledgement that these are difficult, intractable challenges that require consistent attention.

THE CURRENT NON-SYSTEM IS NOT DESIGNED TO ACHIEVE OPTIMAL OUTCOMES

Existing approaches to addressing sovereign debt problems are not designed to achieve optimal outcomes. In fact, it would be hard to call the current non-system "designed" at all. Instead, it represents the results of the decades-long combination of opportunistic patches and incremental reforms outlined above with the modest aim of producing the best possible results under a variety of political, legal and institutional constraints (Helleiner 2008). Rather than a system, sovereign debt distress gets dealt with through cobbled-together measures reinvented in an only semi-orderly fashion for each crisis.

This non-system "works" in the sense that debt-related sovereign crises eventually get solved and impaired debt eventually gets restructured, but with excessive and avoidable costs to creditors, debtors and citizens (IMF 2012b; Levy Yeyati and Panizza 2011; Sandleris 2012; Tomz and Wright 2013; Cruces and Trebesch 2013). These costs break down into three components (see Figure 3). The *ex ante* costs of restructuring arise from delays in initiating the restructuring process. These come about, in part, owing to a lack of predictability in the process itself for both creditors

Box 2: Restructurings versus Reprofilings

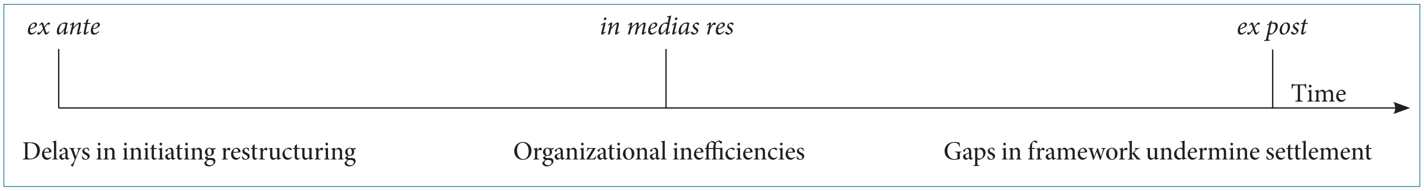
There are two major approaches to treating sovereign debt when a country loses access to market financing:

- **Restructuring is broadly defined as any exchange or renegotiation of the terms of sovereign debt that results in a significant reduction in net present value (NPV).** Reinhart and Rogoff (2011) argue that restructuring should be defined even more broadly to include any overt or covert action that significantly diminishes the value of the payout on public debt, including high inflation to reduce the real worth of domestic-currency debt. A restructuring may occur through a consensual process of negotiation, through a disruptive default or, in the extreme, through a government seizure of assets. Restructurings almost invariably trigger — or should trigger — sovereign credit default swaps (CDS) and any action that leads to cross-acceleration of securitized debt should be considered a form of restructuring.

- **Restructurings are distinct from reprofilings or reschedulings that seek to shift debt service payments into the future to address liquidity concerns without imposing a significant NPV haircut on creditors.** Uruguay (2003) and the Dominican Republic (2005) both undertook debt exchanges that pushed bulges of maturities that threatened sovereign liquidity smoothly out into the future without significantly slashing the NPV of this debt. Uruguay's reprofiling occurred prior to the implementation of the International Swaps and Derivatives Association's (ISDA's) 2003 framework and did not trigger CDS, but the Dominican Republic's later reprofiling did. In each case, the reprofiling provided the breathing room necessary for the country's IMF-supported reform programs to work and both sovereigns remained solvent. The IMF's consideration of reprofilings (2014b) could make them an official option for sovereigns under IMF-supported programs, even where future debt sustainability cannot be certified with high probability by the Fund staff, a normal precondition for IMF support in the absence of a restructuring.

This report mirrors common discourse by referring broadly to sovereign debt restructuring rather than the more generic phrase sovereign debt treatment, except where a distinction between restructuring and reprofiling is being made.

Figure 3: Sources of Costs in Sovereign Debt Restructurings



Source: Authors.

and debtors. The *in medias res* costs of restructuring are incurred when restructuring, once initiated, is drawn out, difficult to conclude and organizationally inefficient. Many of these costs stem from the fact that there is no provision in international law for a standstill on debt payments and a stay on litigation against a distressed sovereign. The *ex post* costs of restructuring are generated when an agreed debt treatment is undermined by legal vagaries, determined creditors and gaps in the restructuring regime.

A successful system for sovereign debt restructuring should do more than simply return a country to borrowing on financial markets (Dooley 2000). It should address sovereign debt distress early and proactively. It should assess a country's solvency in an open, credible and straightforward fashion; it should reach a balanced, broadly shared view on the country's capacity to pay its existing debt; it should create the foundations for a consensus on a reasonable distribution of losses among a debtor, its citizens and its creditors; and it should set a country back on a path to growth and liquidity with the smallest possible efficiency losses to stakeholders. The current non-system doesn't do these things.

TOO MANY FEATURES OF THE EXISTING NON-SYSTEM ARE ANACHRONISMS FROM THE LAST CENTURY

To the extent that there is an informal protocol for dealing with troubled sovereign debt, it begins in the wrong places. Typically, a distressed sovereign approaches the IMF for financial support and assistance to design an adjustment program long after the outbreak of financial problems. While the Fund has unparalleled capacity to help develop and implement an adjustment package, it has only limited resources compared with the size of advanced and emerging-market countries' potential financing needs. With the 2010 package of IMF reforms still on hold awaiting US Congressional ratification (House 2015), a doubling of the IMF's quota resources remains pending. Even if completed, however, this boost in permanent lending capacity would still not position the IMF to be able to deal with multiple large crises at the same time.

The next step in a sovereign's attempts to deal with its debt problems typically involves a trip to the Paris Club to discuss the broad terms of a restructuring with official bilateral creditors (i.e., other governments). The IMF's DSA provides the basis for a determination of the country's financing needs, its capacity to pay some share of its debt obligations and the extent of debt relief required to restore liquidity and solvency. The Paris Club's members and the sovereign (whose representatives are literally shunted to the basement of the conference facility and don't meet directly with creditors) agree on debt restructuring terms that, under the club's conventions, include the expectation that all other creditors — none of whom have a seat at the club's negotiating table — will provide "comparable treatment." This accords the Paris Club's official bilateral creditors far too much centrality in the conduct of a restructuring. Until the early 1990s, official bilateral debt accounted for upward of 60 percent of sovereign debt owed to official creditors; it's now below 40 percent and accounts for a much smaller share of total sovereign debt. Moreover, the Paris Club doesn't officially include most "new" creditors — the Persian Gulf States and BRICS (Brazil, Russia, India, China, South Africa) countries — and many don't wish to be involved (House, Wang and Xafa 2014). Some remain scarred from the experience of their own debt restructurings, while others see the Paris Club as a post-colonial, debt-collecting relic. The Paris Club is attempting to address this problem through its annual consultations with new creditors in its Paris Forum, but this has generated little traction in expanding the club's membership. With only traditional creditors at the table, and a declining share of total debt under its purview, the club's expectation that it sets the terms of a restructuring and that others will follow with comparable treatment increasingly looks like the tail trying to wag the dog of the sovereign debt community.

INSUFFICIENT INCENTIVES AND TOO LITTLE PREDICTABILITY EXIST TO PREVENT DEBT PROBLEMS IN THE FIRST PLACE

In making the case for the SDRM, Anne Krueger (2001) notes that, "we lack incentives to help countries with unsustainable debt problems resolve them promptly and in an orderly way. At present, the only available mechanism requires the international community to bail out private creditors." The widespread adoption of CACs in New York-law sovereign bonds since 2003 has done little to change this, as the 2012 bailouts of creditors holding short-run residual maturity Greek debt demonstrated. The decades-old market-based approach to treating sovereign debt still imposes costs on creditors and debtors that are too high and poorly distributed.

Talking about sovereign debt restructuring is, however, a discussion about second-order concerns: it's nearly always less costly to prevent a mess than to improve the way one cleans up a disaster (Griffin 2015). Effective prevention requires action on at least five fronts: improved surveillance, brakes on overborrowing, inhibitions on overlending, efforts to blunt the moral hazards created by IMF financing and greater predictability in how debt workouts will be handled. Each of these issues is discussed in turn below.

Sovereign Surveillance Is Narrow and Censored

Sovereign debt problems often begin somewhere other than the sovereign itself: in household balance sheets, financial sector imbalances and nonfinancial-sector corporate debt (Mian and Sufi 2014). For instance, in the late-1990s Asian crisis, private-sector debt, with related maturity and currency mismatches, was the proximate cause of what later became sovereign distress. Some of these vulnerabilities persist: South Korea, among other emerging markets, still maintains large external wholesale banking exposure (although it has reduced this dependency since 2008). In other advanced-country cases, the post-2007 explosion of sovereign domestic-debt issuance imperils domestic financial sectors (viz. Italy) that hold massive stocks of these bonds on their balance sheets. The IMF's traditional focus on current flows in its monitoring of country-level vulnerabilities may miss such problems or fail to quantify them sufficiently. And even where balance-sheet risks have been identified prior to them touching off crises, concerns about them have sometimes been dismissed, as occurred inside the IMF with respect to eastern Europe in the run-up to the most recent financial crisis (Blustein 2015).

The effectiveness of IMF surveillance is also limited by its member countries' censorship of its work. The Fund's shareholders retain the right to refuse publication of any mention of an individual country. It's difficult to be the fearless truth-teller the world needs the IMF to be when that truth can't be printed, disseminated, dissected and discussed.

Overborrowing and overlending remain endemic

Although the possibility of hitting payment difficulties provides a long-term disincentive to overborrowing (Borensztein and Panizza 2009), individual policy makers and governments, whose optimization horizons are relatively short, are consistently tipped toward seeking financing and hoping that growth and/or inflation will render their debt burden sustainable without the need for a future restructuring. Overborrowing, of course, requires other parties to overlend, and there is little reason for creditors to avoid doing so. Deal fees for originators and underwriters aren't tied in any fashion to the long-term prudence of the borrowing they facilitate. In a world where bearer bonds are the dominant means by which sovereigns raise capital, questionable paper can be quickly offloaded in secondary markets. CDS and other insurance markets allow a substantial share of deal risk to be covered or hedged. Even as a country's debt sustainability begins to become questionable, investors are incentivized to provide short-term lending, often at high yields, or take positions in short-term residual debt, in a calculated gamble that the vagaries in the debt restructuring non-system will see the sovereign prioritize paying them in full. Given the late stage at which creditors are brought into crisis resolution discussions, there is little encouragement for them to be proactively constructive in helping a sovereign manage its problems. Attempts to create codes of conduct for borrowing and lending behaviour have not yet produced guides that are routinely referenced by debtors and creditors (IIF 2012; United Nations Conference on Trade and Development [UNCTAD] 2012).

IMF Lending During Debt Restructurings May Still Be Bedevilled by Moral Hazard

Despite regular reviews of the design of its lending facilities, the availability of IMF financing brings with it the danger of moral hazard for debtors, creditors and citizens. The existence of IMF financing may encourage overborrowing and overlending, although fears of this effect are likely exaggerated since neither sovereigns nor creditors view an IMF-supported adjustment program as anything other than something they wish to avoid (Becker, Richards and Thaicharoen 2003; Jeanne and Zettelmeyer 2004). But the prospect of an IMF bailout and, indeed, the provision of IMF financing, tend to let both debtors and some creditors off the hook, thereby socializing risk without being accompanied by major demands for systemic efforts to prevent future crises. A sovereign's citizens are parties to this moral hazard in failing to insist on more prudent policies before a crisis develops and in benefiting from an IMF bailout of their implicit lending to the sovereign. Moreover, the lack of a predictable restructuring process means that the costs of a debt treatment are often distributed in a haphazard fashion, which further amplifies moral hazard.

It often pays to be unconstructive

In the absence of a predictable restructuring protocol, it often pays for debtors, creditors and affected citizens to act in their narrow self-interest throughout a debt workout. Debtors may be less than forthcoming about their financial situation, they may withhold information and meaningful engagement from creditors, they may attempt to conceal assets and they may understate the extent to which economic adjustment is feasible.

Among creditors, the first whiff of crisis often sets off a rush to the exits as they dump bonds, syndicated loans and other assets related to the country at risk, even if this may be counter to their long-term interest by transforming a liquidity crisis into a solvency crisis. The general absence of early engagement with creditors and the lack of an explicit priority ranking of claims, accompanied by the means to enforce this ranking, enhance this predisposition toward flight. If creditors are brought into restructuring talks late, especially after broad terms have been set with the Paris Club, their ownership of the process is likely to be weak and their individual incentives to hold out and litigate pre-emptively are strong, even though their collective interests would be best served by an orderly restructuring that returns the sovereign to growth and market access. The lack of a standstill process that would allow a sovereign to organize its affairs and to develop a restructuring offer adds to the incentive for creditors to rush to the courthouse. New York Judge Thomas Griesa's rulings (*NML Capital, Ltd v. Republic of Argentina* 2013) in favour of creditors that refrained from participation in Argentina's 2005 and 2010 restructurings increase the incentives for bondholders to litigate rather than restructure by providing these investors with new avenues to pursue distressed debtors.

International payment systems as well as trade and investment treaties are also being upended to enforce creditor rights and undermine the extent to which restructurings can be imposed on minority creditors. Belgium (Government of Belgium 2004) and Luxembourg have immunized Euroclear and Clearstream, respectively, against such attacks; the United Kingdom (Government of the United Kingdom 2011) has temporarily excluded countries that benefited from the HIPC Initiative from attachment under English law; but US payments systems remain vulnerable to actions by holdout creditors. Creditors have also exploited gaps in bilateral and multilateral investment treaties in pursuit of payments on impaired debt. Taylor St. John and Ngaire Woods (2014) outline how the first such case under a US investment treaty was launched in 2008 under a bilateral accord with Argentina; since then, cases have proliferated under the provisions of other bilateral treaties and in the context of the International Centre for Settlement of Investment Disputes (ICSID) processes. There is little uniformity in the way investment treaties handle sovereign debt: some newer treaties (for example, the US-Uruguay Bilateral Investment Treaty) have annexes that exclude coverage of sovereign debt, while most older ones do not, or they feature an eclectic collection of carve-outs. On the trade side, Chapter 11 of the North American Free Trade Agreement explicitly excludes sovereign debt, but other plurilateral and regional treaties are inconsistent on this issue.

A debtor sovereign's citizens are almost entirely excluded from having a direct voice in the current restructuring non-system, even though they are implicit creditors of their government. By leaving them out, the process encourages obstructionism and opposition to adjustment that only adds to the total costs of resolving a crisis.

Most Debt Restructurings Provide Too Little Relief and Happen Too Late

Sovereign debt is different from other forms of borrowing: it is difficult to collateralize in any meaningful way since sovereigns typically have very few assets outside their own legal jurisdictions and creditors have no way to force a sovereign to honour its payment obligations (Eaton and Gersovitz 1981). As a result, it has long been thought that it should be difficult and costly to restructure sovereign debt in order to discourage governments from defaulting. Otherwise, it has been feared, sovereigns and their citizens would devote too little effort to adjusting their economies to stay current on their borrowing. They would, instead, gratuitously default prematurely on their obligations and demand substantial haircuts on their debt. In short, they would ask for debt relief that is "too much, too soon." In a game-changing 2013 paper, the IMF (2013a) took on this shibboleth with data that instead show that sovereigns tend to delay coming to terms with their debt problems, and when they do act, they tend to restructure too modestly to put themselves on a durable path to sustainability (Powell 2011; Powell, Sandleris and Tavella 2013). Rather than "too much, too soon," sovereign debt restructuring appears more often to be a problem of "too little, too late." A better approach to debt restructuring would make "just enough, just in time" the new norm.

"Too late" happens principally because of delays by the sovereign debtor in acknowledging and dealing with debt distress (see Figure 4). Denial, extended austerity, reduced growth, loss of market access, large-scale financing from the IMF to avoid default, larger, more inflexible debt stocks and more savage eventual restructuring are the characteristic pathologies underpinning and stemming from "too late" (Eaton and Gersovitz 1981; Bulow and Rogoff 1989; Cole and Kehoe 1998; Sandleris 2008; Frydl and Quintyn 2000; Reinhart, Reinhart and Rogoff 2012; IMF 2013a; Gennaioli, Martin and Rossi 2014). The specific costs to politicians and public servants of acknowledging debt problems may be substantial, including the loss of their jobs (Borzenstein and Panizza 2009), but the collective costs of delay to their country, their citizens and their creditors are even greater. This asymmetry makes it difficult to create incentives for early engagement that dampen policy makers' reluctance to "pull the trigger" (IMF 2006; 2012b) and begin dealing with a debt problem, in part because waiting for a miracle

Figure 4: "Too Late": Stages of Delay in Sovereign Debt Restructuring

Source: Authors

sometimes pays off. This is not all bad: there needs to be enough flexibility for earnest attempts at adjusting and growing back to sustainability. Mexico, Portugal, Indonesia, Brazil and Turkey all managed at various points during the last 15 years to escape restructurings that many analysts thought inevitable, owing in part to improvements in international economic conditions; Uruguay and the Dominican Republic managed to get by with less onerous reprofilings rather than restructurings in the early 2000s. But the recent experiences of Argentina, Greece and several Caribbean countries point to the costs engendered in cases where restructuring is left too late.

Once restructuring terms are proposed, creditors and debtors tend to move relatively quickly on concluding a debt treatment. Private creditors underscore both their constructiveness and that the most critical delays in restructuring happen long before they are meaningfully engaged. The IIF (Tran 2014) notes that negotiating Greece's 2012 debt exchange took only six weeks, but the proposal of terms by the sovereign took more than two years to come about. Federico Sturzenegger and Jeromin Zettlemeyer (2007) and Andrew Powell (2014) find, however, that the costs of delay rise steeply only a few weeks after terms are offered: haircuts tend to increase in size logarithmically, the longer restructuring negotiations drag on.

While delays are endemic in restructuring impaired debt, once market access is lost, there's a related tendency to rush the restoration of borrowing by seeking "too little" relief in the debt treatment process. Countries tend to be under-ambitious in the haircuts they seek in order to win quick creditor agreement to a debt treatment. This inclination is strengthened by a bent at the IMF toward engagement and lending, which requires a projection based on the DSA that an IMF-supported program will produce sustainability. The constraints on IMF lending under the Exceptional Access Criteria (EAC) and Exceptional Access Policy (EAP) (see Box 3) and limited IMF quota resources mean that the financing available from the Fund may be too small. Moreover, the standard restructuring terms offered by the Paris Club are no longer sufficiently generous to produce sustainability in countries such as Greece, Grenada and others that have already been through previous restructurings and whose outstanding borrowing is dominated by senior debt to official creditors that cannot be restructured. Hence, requests for debt haircuts will also tend to be too modest. As a result, a return to the markets is often not an indicator that solvency has been durably regained. Since 1979, some 41 countries have had multiple restructurings and there have been 40 episodes of serial restructurings within six years of each other (Powell 2014). Sturzenegger and Zettelmeyer (2007) find that many recent exchanges delivered less than their headline reductions in NPV when set against their exit yields.

THE POSSIBILITIES TO REFORM EXISTING INSTITUTIONS AND PROCESSES ARE POLITICALLY CONSTRAINED

The still-pending ratification of the 2010 package of reforms to the IMF's quota resources and governance is a stark illustration of the difficulties faced by nearly any attempt to improve the architecture of the international financial system. Despite being proposed and negotiated by the Obama administration, and aligning squarely with US interests, the reform package remains stymied by the US Congress's failure to ratify it. If such a straightforward and attractive renovation of the IMF cannot win Congressional support, which is needed because fundamental changes to the IMF require 85 percent of members' voting power and the US controls over 16 percent, any effort to create a statutory sovereign bankruptcy regime is essentially impossible under current conditions. The recent vote during September 2014 in the United Nations' General Assembly (UN 2014) on a resolution to begin exploring the creation of a statutory restructuring framework did not receive support from any major financial centre (Ocampo 2014a). Even if the problems in sovereign debt restructuring that have to be addressed are clear, finding a politically feasible way to tackle them will remain a deep challenge for some time.

THE POLITICAL AND DEMOCRATIC LEGITIMACY OF THE CURRENT NON-SYSTEM IS WEAK

Reflecting the political difficulties of reform, democratic legitimacy is lacking in the current non-system of sovereign debt restructuring. The improvements on an agreed CAC template facilitated by ICMA and the IMF

Box 3: The IMF's EAP and the Systemic Waiver

In 2003, the executive board of the IMF agreed (IMF 2003) that a more clearly defined policy was needed to govern consideration of "exceptional access" (i.e., very large borrowing) in capital account crises with a view to providing member countries and markets with greater predictability in anticipating Fund support to sovereigns facing severe debt crises. Executive directors agreed that, at a minimum, the following criteria from IMF (2002) would need to be met to justify exceptional access to Fund resources for countries facing a capital account crisis:

- the country is experiencing exceptional balance-of-payments pressures on the capital account, resulting in a need for Fund financing that cannot be met within the normal limits;
- a rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable;
- the country has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, and thus the Fund's financing would provide a bridge; and
- the policy program of the country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

The IMF executive board made a substantial revision to the EAC in 2009 to extend their application to balance-of-payments crises originating in the current account as well as the capital account (IMF 2009).

The IMF executive board further revised the EAC at the time of the May 2010 approval of a Stand-by Arrangement for Greece to loosen the second criterion. At the time, IMF staff was not able to represent to the board a high probability that Greece's debt would be sustainable. In response, the executive board expanded the second criterion to allow member countries exceptional access to Fund resources in such cases if there is a high risk of international systemic spillovers. The second criterion was revised as follows, arising from the country's distress:

> A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access would be justified if there is a high risk of international systemic spillovers. Debt sustainability for these purposes will be evaluated on a forward-looking basis and may take into account, inter alia, the intended restructuring of debt to restore sustainability. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness. (IMF 2010)

The executive board also specified that exceptional access to IMF resources under the revised EAC would require early consultation with the board during staff negotiations with the member country and post-program evaluations to assess the effectiveness of the Fund's exceptional support.

during 2014 were drafted in closed sessions of a small group of experts and the results are manifest solely in the way debt contracts are written. This was effective at reaching a consensus, but the reforms are not subject to any broader review or endorsement, as Anna Gelpern (2014) underscores. Of course, governments need not incorporate this new template in their bond contracts, but simply avoiding these innovations does not provide a means by which they can be democratically vetted. Restructuring is essentially an act of balancing creditor, debtor and citizen interests. But to the extent informal restructuring norms exist, citizens are highly attenuated from these processes despite their positionality as implicit creditors by virtue of pension, social welfare, health care and other obligations due to them. Although the template for the IMF's DSA is now published on its website (IMF 2013b), the actual numbers that go into each country-level iteration of the framework remain obscure. Determinations of a country's capacity to pay its creditors remain guarded in Paris Club negotiations with bilateral creditors. IMF conditionality gets set in technocratic closed-door sessions with the debtor sovereign and there is only limited engagement with civil society in weighing the inherent trade-offs in these conditions. Consequently, neither creditors nor citizens evince much ownership of the status quo on debt restructuring.

NO STANDING BODY EXISTS FOR CONTINUOUS RESEARCH AND REFORM

Reform is stymied both by its political challenges and by the fact no institution is charged with continuous refinement of our approaches to sovereign debt restructuring. Instead, focus and work on this issue waxes and wanes. Reform tends to go dormant when the global economy is quiet and it advances only when the world is under intense pressure. This might be fine if it were to produce consistently timely, relevant and parsimonious improvements in the existing non-system, but it doesn't. Instead, it sometimes produces weak policies through poor processes as much as it leads to advances. Consider the systemic exemption introduced to the IMF's EAC/EAP in order to allow the institution to provide massive financing to Greece in 2010 (Schadler 2012): the exemption was poorly justified, it did not respect the IMF's core principle of equality of treatment across its membership, it gutted constraints on IMF lending, it was introduced in the midst of a lending decision rather than a policy discussion, and as signalled last year (IMF 2014b), the IMF is already considering unwinding it.

The new 2014 CAC template and the IMF's introduction of debt reprofiling to programs where prospective solvency is unclear show that the world can improve the way sovereign debt restructuring gets done. But these innovations also underscore that such reform needs to be ongoing and more ambitious. Reprofiling could be a great addition to the IMF's policy quiver, but it wouldn't have helped much in either the Argentina or Greece cases and, instead, it may have simply delayed an inevitable debt writedown. The new CAC template and improved *pari passu* provisions make bond contracts more impervious to holdouts, but neither innovation would have prevented the March 2015 Catch-22 for Citibank Argentina where it risked falling into contempt with the New York courts if it facilitated a payment on Argentina domestic sovereign debt and would be punished by the Argentine authorities if it didn't (Gelpern 2015; Prengaman 2015).

If the world is to get beyond "too much, too soon," and "too little, too late," it needs a dedicated team working to get sovereign restructuring processes to a place where they are neither overly punitive nor excessively permissive: in short, "just enough, just in time."

IDENTIFYING A REFORM AGENDA: STAKEHOLDERS' VIEWS

CIGI's SDF consultations were guided by a set of five central questions (see Box 4) to move from broad diagnoses, such as those just outlined, toward the identification of more specific problems connected to possible responses. These questions were framed in early 2012, prior to the completion of Greece's second debt treatment, when the world was in real-time crisis management. At that point, developments in Greece and Cyprus were still deeply uncertain (as they remain) and these questions reflect, in part, detailed considerations of these crises, as well as worries about the rest of the European periphery.

Since 2012, developments and time have widened the perspective of these consultations to include more foundational issues that go beyond the immediate exigencies of the European crisis. During this time, systemic risk has peaked and troughed, and the crisis-induced sense of looming disaster in the euro zone has returned repeatedly. It is therefore an opportune time to return to these core questions as a framework to report on views on possible concrete proposals for reform.

1. How have institutional innovations during the euro crisis affected crisis management procedures?

There is a broadly held disinclination against a rush to judgment on recent partially completed innovations in crisis management procedures: echoing Bergljot Barkbu, Barry Eichengreen and Ashoka Mody (2012) and Daniel Drezner (2014), diverse stakeholders and commentators note that the international financial system endured the crisis, dented perhaps, but it survived and largely worked to avert a complete meltdown. In general, there is a great deal of support or at least non-opposition to institutional developments within the euro zone over recent years. The creation of the European Stability Mechanism (ESM) is widely cited as a wholly positive development in making Europe more resilient to present and future financial distress. The various emergency financing and liquidity programs instituted by the ECB receive positive reviews, with a concern that the ECB got interest rate calls patently wrong early in the crisis and has been a latecomer to QE (Draghi 2012). At the same time, many policy makers, in particular those outside of Europe, see the IMF's EAC/EAP as having been fundamentally compromised by the fudges and exceptions made to allow approval of the IMF-supported program in Greece and the introduction of the systemic waiver on access to exceptional amounts of IMF resources. More broadly, a range of stakeholders from academia, policy making and civil society hold strong views that institutional innovations to date have been insufficient to make sovereign debt crisis management as fair and effective as it could and should be.

Was it appropriate to change the IMF's EAC and was the exemption for systemic spillovers justified?

There is retrospective recognition that uncertainty around contagion was a reasonable brake on more rapid action to address Greece's debt overhang, at least until European structures to handle a Greek restructuring or possible "Grexit" were created. There is less agreement that this uncertainty merited the introduction of an exemption to the IMF's EAC/EAP for crises where there is a threat of systemic spillovers to the global economy. The exemption is roundly seen as bad policy, because it applies unevenly to the Fund's membership, and bad policy making, given the manner in which it was introduced in the midst of the IMF's May 2010 lending decision on Greece. Long-time IMF staff, country officials and Fund-watchers lament that policy makers have been trying for years, without success, to constrain access to the IMF's resources and limit moral hazard connected to their use. Each effort has eventually been undermined by the IMF's major shareholders and the systemic waiver for Greece is only the most recent episode of this habit. The absence of any requirement to quantify the putative spillovers used to justify the exceptional

Box 4: Five Central Questions to Guide Reform

1. **How have institutional innovations during the euro crisis affected crisis management procedures?**
   - Was it appropriate to change the IMF's EAC and was the exemption for systemic spillovers justified?
   - Are market-based voluntary procedures for agreeing on the terms of debt exchange offers sufficiently efficient?
   - What is the impact of the modalities that have emerged for cooperation between the IMF and regional partners?
2. **Is the IMF optimally organized for crisis management?**
   - Is it desirable to constrain IMF financing decisions to particular circumstances? And is it possible to do so?
   - What is the effect of the IMF's preferred creditor status (PCS) on its assessments of risk?
   - Is the IMF sufficiently independent to make efficient and timely decisions on the appropriate balance between financing, adjustment and restructuring in crisis management or should an independent body be created to do so?
3. **Does the now-standard (i.e., pre-2014) CAC template do as much as it could — or should — to encourage creditor coordination?**
   - Have CACs spurred debt restructurings even when they have not been activated?
   - Would adoption of a single CAC template enhanced by additional features make creditor coordination more likely in more complex debt restructurings?
4. **Are current market-based voluntary debt restructuring procedures sufficiently robust for more complex, expensive and difficult cases?**
   - What are the implications for the CDS market in the aftermath of the Greece debt exchange?
5. **Should we construct a statutory restructuring framework as a backstop or supplement for cases where ad hoc market-based approaches are not sufficient?**
   - Could the main features of such a framework be created through voluntary principles on provision of information, rules of conduct and procedures for dispute resolution? Or would such provisions need to be legally formalized?
   - Could the IMF be involved in this framework or would it be viewed as having a conflict of interest as a creditor?

Source: Schadler (2012).

access provided to Greece is puzzling: financing equivalent to 3,200 percent of Greece's quota should require greater evidentiary support.

These concerns are now mirrored in the IMF's (2014b) own consideration of the option to reprofile sovereign debt to its lending frameworks when a country's sustainability is unclear. The Fund's paper accepts the notion raised by many stakeholders, and articulated comprehensively by Schadler (2013), that better surveillance, effective policy, increased certainty in its application and a credible program based on a plausible DSA are far more effective in reducing systemic spillovers than exceptional access within the bounds that the IMF is currently or likely to be able to provide in the event its pending 2010 quota reform is ratified. Financing a marginally sustainable country to avoid a debt treatment rather than pursuing a reprofiling or more fundamental restructuring is unlikely to minimize the deadweight losses arising from spillovers if they indeed occur.

The imperative to undo the waiver is driven additionally by the widely shared view that it fundamentally violates the IMF's presumption of equality of treatment across the Fund's membership (Schadler 2013). Small countries outside of a major currency union are unlikely to qualify for the waiver as they rarely have systemic implications. Additionally, there is no agreement that crisis-afflicted countries within currency unions are inherently more likely to generate spillovers than countries in other financial arrangements. Finally, the necessity to re-invoke the waiver at each program approval and review for Greece has been seen as increasingly out of sync with reality: having created a bevy of pan-euro zone crisis-fighting institutions and mechanisms, purged Greek debt from the balance sheets of German and French financial institutions and stabilized other channels of contagion, developments in Greece should become broadly less systemic in their import. Indeed, if the Troika-supported program has worked at all, then the threat of systemic spillovers should be gradually disappearing and repeated reactivation of the waiver would not make sense.

The IMF's consideration of soft debt reprofilings with minimal NPV reductions in programs where sustainability cannot be judged with high *ex ante* certainty is generally seen as doing little harm, but it also provides minimal reform compared with the magnitude of the need for change. Stakeholders from various quarters indicate that they see the IMF executive board's favourable disposition toward reprofiling as more about reconciling the IMF's internal bureaucratic procedures with themselves and less about changing the Fund's substantive engagement with countries in debt distress. They note that reprofilings have featured in recent IMF programs (viz. Uruguay 2003 and Dominican Republic 2005); the only difference in the policy reform under consideration is that a reprofiling could be undertaken even when it might not necessarily lead to a sustainable debt situation with high probability. In effect, the proposed policy change would allow the IMF to support "stretch" cases without compelling the staff to provide an overly optimistic assessment of future debt sustainability.

Across the board, stakeholders caution that, while reprofiling certainly may be useful in some crises, these instances are likely to be limited to those sovereigns where there is a bulge in debt service in the first few years of a program that can be pushed to a later date to relieve an immediate liquidity concern. In other cases, the option to reprofile may not provide any meaningful change: reprofiling may have given some breathing room to Europe in 2010 to get its affairs in order ahead of a Greek restructuring, but it wouldn't have removed the need for a substantial writedown that nearly everyone saw coming. Xafa (2014b) also explains that the possibility to undertake a reprofiling midway through a program, or to move from a reprofiling to a restructuring mid-program, may roil rather than calm markets, provide a new channel for delay and needlessly complicate both program design and execution.

Are market-based voluntary procedures for agreeing on the terms of debt exchange offers sufficiently efficient?

There is a broad sense that the extant market-based approach to debt restructuring can indeed be made more efficient, but the gains possible under the non-system are not viewed as either sufficient or optimal by some stakeholders. The *ex ante*, *in medias res* and *ex post* costs that perpetuate the "too little, too late" problem can all be mitigated through contractual and voluntary channels without meaningfully raising the risks of gratuitous defaults. But many stakeholders argue these costs can't be substantially reduced without a move to a full statutory or treaty-based debt restructuring framework. Views vary on the political viability of international statutory reforms and the utility of pressing for them. Some stakeholders from across geographies and sectors, taking note of the composition of the vote on the September 2014 UN resolution, view pursuit of an international statutory debt restructuring framework as a pointless distraction and needless waste of energy: whatever its inherent merits, it simply isn't going to garner sufficient support any time soon and joins earlier UN resolutions on sovereign debt restructuring in generating more symbolism than action (UN 2010, 2011, 2012). Others, principally academics, CSOs and emerging-market policy makers, see this stance as overly defeatist: in their view, change only comes when it's demanded, and the optimal time to work for it is always right now.

What is the impact of the modalities that have emerged for cooperation between the IMF and regional partners?

The international community is still digesting the regional counterparts that have grown up to complement, supplement and compete with the IMF. On one hand, there is recognition that Europe's new structures represent a responsible attempt by relatively well-off countries to internalize the costs of dealing with their own crises rather than shifting them on to international institutions. At the same, time, though, the experience with the euro zone is also cautionary. Many stakeholders feel that the IMF's engagement with the European Commission as a junior partner in the 2006 Latvia program (Blustein 2015) and in the Troika for Greece, Ireland and Portugal (Mandeng 2013) has subordinated the Fund to even greater political influence than under previous programs with large borrowers: once involved, the IMF's hands have essentially been tied and it has had little choice but to remain active. Some Europeans worry that the IMF has been complicit in helping the ECB circumvent proscriptions on monetizing deficits, while others feel that the ECB's latitude for action has not been nearly wide enough, thereby generating externalities that have been transferred to the IMF and the rest of the world.

Views are divided on whether regional swap arrangements, such as the Chiang Mai Initiative, pan-regional swap networks, such as the BRICS's new Contingent Reserve Arrangement, and local IMF-style institutions, such as the ESM, strengthen the IMF or critically undermine the Fund and fragment the international system. Recent decisions by a handful of European countries to join the China-dominated Asian Infrastructure Investment Bank reflect both an emerging view that new regional and multilateral organizations can be additive to the Bretton Woods institutions and a hedge against continued delay in American ratification of the 2010 package of IMF quota reforms (Rachman 2015).

2. Is the IMF optimally organized for crisis management?

A range of observers feel the IMF's work remains imperfect, but still perfectible. Nevertheless, many stakeholders are unclear whether reform can proceed quickly enough to keep new and emerging economies fully engaged in the institution. Stakeholders across predominantly debtor and creditor constituencies are equally concerned that even with the quota increase proposed under the 2010 reform package, the Fund would still not have sufficient fire power to address the crises that likely lie ahead. Larger capital flows, more open trade in goods, international balance-sheet linkages and economic growth together mean that even an IMF with double its current quota resources would still not be big enough to deal with financial crises in more than one major economy at the same time.

Some market stakeholders and national policy makers regret that the IMF remains too focused on managing crises and cleaning up after them, and not sufficiently engaged in preventing crises from developing. They note the continued lack of member-country interest in the Flexible Credit Line (FCL) and what some have called its "ugly sibling," the Precautionary and Liquidity Line (PLL), as proof that the IMF is not yet optimally organized for crisis prevention, even if its set-up for crisis management is improving.

On the market side, there are persistent concerns that the IMF's conduct is not yet sufficiently predictable. There is some worry that the addition of the explicit option of reprofiling to IMF programs could make it even harder to anticipate Fund advice and actions. In some cases, market participants see the IMF's involvement in sovereign debt crisis resolution as excessively skewed toward the interests of debtor governments, while most of those debtor governments themselves see the IMF as more akin to a facilitator for debt collectors than a quasi lender of last resort.

There is also ongoing frustration in markets with IMF surveillance for its lack of real candour and transparency, while at the same time there is acknowledgement that the membership's oversight on publication obviously limits what the IMF staff can say. The IMF's recent decision to include revamped DSAs in routine Article IV reports is widely welcomed, but the 2014 Italy Article IV DSA is cited several times as an example of the ways in which IMF projections may still be bent to satisfy members' interests by showing rosier prospects than is merited by a dispassionate assessment of probabilities. A wide range of stakeholders, from diverse geographies and sectors, would like to see even greater transparency in the numbers underpinning a country's DSA.

Is it desirable to constrain IMF financing decisions to particular circumstances? And is it possible to do so?

Reducing potential for IMF-induced debtor and creditor moral hazard remains a critical issue for many policy makers. Greece's borrowing from its euro-zone entry in 2001 to 2009 makes it clear that mispricing risk and debtor moral hazard remain real problems: Greek risk was assessed for too long as only marginally greater than Germany's and overlending ensued as a result.

Inspired, in part, by Andrew Haldane and Mark Kruger (2001), national and multilateral policy makers remain keen to revisit methods of constraining IMF lending, discretion, waivers and exceptions through clear and predictable principles and rules. There remains broad agreement that it is theoretically attractive to condition member and creditor expectations by setting clear limits on the IMF and forcing both its staff and the Fund's executive board to justify difficult lending decisions. There is little agreement, though, on whether durable constraints are feasible. Some international policy makers argue the EAC/EAP provided an "unassailable" framework for distinguishing between cases in which countries are unable to pay versus those where they are unwilling to pay (Schadler 2013). Markets and sovereigns see this differently, particularly post-Greece: lending into a crisis is still perceived to involve an unpredictable judgment call from the IMF. Many IMF veterans argue that tightening the EAC/EAP is pointless: such tightening would presume that opting to withhold support is a viable choice for the IMF, when it's not. In crises, the IMF has to lend: there isn't an alternative. Put bluntly, criterion two of the EAC/EAP requires either a bogus DSA or a bogus systemic waiver.

The absence of clear rules on the IMF's actions — or their excessive flexibility where they do exist — is widely viewed as one of the main sources of delays in coming to terms with a country's debt sustainability issues. The IMF-supported programs in Argentina between 2001 and 2003 are cited by many stakeholders as cases of a permissive international regime that provided massive financing even when debt sustainability was dubious — and essentially made the situation worse by putting more senior official debt on Argentina's balance sheet, thereby necessitating an even greater loss for private creditors when a restructuring eventually occurred. Greece is widely seen as a conscious repeat of the pitfalls encountered with Argentina, but underpinned with intentionality to provide breathing room to Europe. More generally, market participants, CSOs and policy makers note that it has appeared over the last decade that restructurings only occur when the IMF insists on them — and that this occurs on an essentially arbitrary basis, thereby denting IMF credibility, the quality of its signalling and its guidance to both creditors and debtors.

Regardless of how constraints on IMF financing decisions are structured, policy makers and market participants both call for more predictable burden sharing between the official and private sectors. Nevertheless, and somewhat contradictorily, proposals for automatic triggers for debt restructuring as a precondition for IMF financing, as raised by Haldane and Kruger (2001) and mooted more recently by Elizabeth Broomfield and Lee Buchheit (2013) and the Committee on International Economic Policy Reform (CIEPR) under an IMF "sovereign debt adjustment facility" (CIEPR 2013), receive little support. It should be noted that the urgency for limits on exceptional access to IMF resources would be dampened somewhat by the completion of the proposed 2010 quota reform: with twice as much quota resources in place, fewer IMF lending decisions would be deemed exceptionally large and subject to scrutiny under the EAC/EAP.

What is the effect of the IMF's PCS on its assessments of risk?

Views diverge widely on this relatively straightforward issue. There is a consensus that it is detrimental for the IMF to lend into unsustainable situations, but there is less agreement on the role of its PCS in facilitating such lending. Some view PCS as a form of cover that gives the Fund executive board space to make somewhat reckless financing decisions. Others see PCS as largely irrelevant to these decisions and a necessary condition of lending into any circumstances where a country has lost access to capital markets: PCS ensures that such lending is not swept into any restructuring that follows.

In both viewpoints, however, stakeholders see a need to separate considerations of the IMF's EAC/EAP from its PCS. For those who see PCS as a driver of lending into unsustainable situations, removal of senior creditor status would add backbone and discipline to the EAC/EAP. For those who see PCS as a necessary feature of crisis lending, the appropriate remedy for inordinately risky financing decisions involves efforts to make the Fund's DSA more transparent and credible so that IMF lending can be reviewed by stakeholders more effectively. In this view, removal of PCS for the IMF or any creditor that provides debtor-in-possession (DIP) financing would create a chill on crisis lending and increase the inhibitions that prevent countries in distress from dealing with their problems proactively.

Is the IMF sufficiently independent to make efficient and timely decisions on the appropriate balance between financing, adjustment and restructuring in crisis management or should an independent body be created to do so?

Opinions vary on the appropriate balance of financing, adjustment and restructuring that the IMF should pursue in the support of its members. Taking a long view, some policy makers and CSOs feel that the role of the Fund has been confused since the days of the Brady Plan: it has been overly focused on creditor repayment and keeping debtor countries current on their obligations, rather than mitigating the effects of financial distress on countries' citizens. Other policy makers and market participants think this inclination is wholly appropriate and argue for an even stronger presumption that a trip to the IMF is an opportunity for a sovereign to find the means to honour its debt obligations. They see value in the IMF maintaining a role in distinguishing between cases where sovereigns are unable to reform and those where they are unwilling to do so, in drawing a line between crises owing to contagion versus crises stemming from bad policy choices and in attempting to define the hazy difference between liquidity problems and insolvency.

There is little consensus on the extent to which the IMF should be made immune from political considerations — a notion that sounds good, in theory, to nearly everyone — versus a latent desire to maintain the option value of guarding the Fund's discretion to act. Some argue for the creation of a council of wise persons to assist the IMF staff and board in acting independently of narrow immediate considerations, thereby refashioning the Fund more in the tradition of independent central banks and less as a very engaged senior creditor. Other policy makers push back on this suggestion, noting that this independent analysis is the main job of the IMF staff itself, making such a council both redundant and a potential distraction.

Most CSOs, many academics and a few policy makers argue strongly for the creation of an entirely new body, separate from the IMF, to oversee restructuring processes and, in some cases, set expectations on adjustment and a debtor country's capacity to pay. They see the IMF's role in restructuring decisions as hopelessly biased by its creditor status and the skewed distribution of voting power on its executive board.

3. Does the now-standard (i.e., pre-2014) CAC template do as much as it could — or should — to encourage creditor coordination?

Holdouts are clearly an issue (Schumacher, Trebesch and Enderlein 2014): otherwise, ICMA would not have come forward with its 2014 reforms. Nevertheless, fears about creditor coordination or collusion are viewed as overblown by most parties, though some CSOs continue to see this as a major way in which debtor countries are disadvantaged in market-driven restructuring processes. Once restructuring terms are proposed, there is generally relatively swift movement to their implementation (Tran 2014). As with corporate debt, there is a sense that if assets are at risk it tends to push restructurings to a relatively rapid conclusion. Indeed, Jeromin Zettelmeyer, Marcos Chamon and Ran Bi (2011) argue that coordination hasn't been as problematic in restructurings as many fear; private-sector sell-side and buy-side actors echo this view. Academics and market participants also recognize that, notwithstanding Argentina's recent difficulties, *ex post* coordination appears to be a limited problem: when offered a reasonable restructuring, most creditors participate. All this said, although creditor coordination may not be the biggest problem faced in restructurings, coordination is not a trivial issue, as Greece demonstrated when half of the individual CACs in its foreign-law bond series failed to activate in the 2012 exchange. Argentina's travails in the New York courts likewise underscore how novel interpretations of bonds' contractual language may continually provide channels through which coordination can be undermined. Nevertheless, several academics and market participants counsel that Greece's and Argentina's experiences shouldn't skew attention toward a scorched earth effort to comprehensively eliminate the possibility of holdouts. Holdouts are not, in their view, the main problem that we need to solve (Trebesch 2008; Buchheit, Gulati and Tirado 2012). Crisis prevention is a much more pressing challenge (Griffin 2015).

The new CAC template (see Box 5) published by ICMA (2014) and endorsed by the IMF (2014c), with its provisions for cross-series aggregation and a *pari passu* clause that excludes Judge Griesa's ratable payments interpretation, is seen by most stakeholders as a useful incremental improvement in the prospects for *ex post* creditor coordination, but it is not viewed as a panacea for creditor coordination problems. Market participants note the IMF's omission of the ICMA provisions for transparency, engagement and creditor committees in its endorsement of the new CAC template, and argue that this misses a chance to institutionalize *ex ante* and *in medias res* cost-saving collaboration between debtors and creditors. Many CSOs and academics remain unconvinced that any CAC template can provide a sufficient and durable incentive for creditors to participate in restructurings (Coplin 2015). They note that some combination of clever lawyers and sympathetic judges will always find a way around even apparently watertight CACs. They underscore that anything short of a full statutory mechanism with a legal standstill facility will always be less than fully effective in binding creditors into a restructuring process.

Others from the CSO space, private sector, policy makers and academics argue that the *real* holdout problem lies with the public institutions that claim PCS: the IMF, the ECB and the European Investment Bank, as well as non-Paris Club public creditors that do not provide equal treatment and free-ride on Paris Club debt abatements. Among non-Paris Club creditors, there is a sense that the carve-out of European central banks from the 2012 Greek restructuring betrayed a certain amount of hypocrisy on the principles of comparative treatment that will stymie attempts to bring new creditors into the Paris Club. As a result, Canada, for instance, refused to participate in efforts to raise additional funds for the euro-zone bailouts and even proposed that European executive directors at the IMF should be excluded from voting on decisions to aid the monetary union (Fekete and Berthiaume 2012).

Have CACs spurred debt restructurings even when they have not been activated? Would adoption of a single CAC template enhanced by additional features make creditor coordination more likely in more complex debt restructurings?

While CACs may have spurred some marginal participation in restructurings, there is little sense that the mere threat of their activation has driven much pre-emptive engagement between creditors and debtors — nor that the new ICMA template will improve on this. After all, if one is going to hold out in the first instance in the presence of CACs, their activation results in the same terms being imposed as those one might have accepted by participating. Instead, CAC minimum activation and participation thresholds may even encourage non-participation in some cases where they provide the opportunity for blocking minorities in individual bond series. Where such single- and double-limbed CACs are replaced, however, with single-limbed aggregated CACs under the new template, there is general agreement in the private sector that such an erosion in creditor rights needs to be balanced by accompanying clauses on consultation, transparency and some support for the formation and operation of creditor committees (DeSieno 2014). There is more skepticism about the necessity and the attractiveness of such clauses among CSOs, policy makers and academics (Coplin 2015).

4. Are current market-based voluntary debt restructuring procedures sufficiently robust for more complex, expensive and difficult cases?

What are the implications for the CDS market in the aftermath of the Greece debt exchange?

Across many stakeholders, there is a broadly shared view that existing procedures are not sufficiently robust to cope with substantial advanced-country debt distress. The recent introduction of the new CAC template, the circumscription of *pari passu* and the addition of reprofiling to the IMF's tool kit do little to change this perception. Nevertheless, some discussants note that this skepticism doesn't automatically imply that radical changes are necessary: incremental tweaks to the market-based non-system may suffice to make it disproportionately more effective. Indeed, as many stakeholders caution in the wake of the 2014 UN vote, nothing else is politically viable.

Many academics refer to the need for a "ringholder" for negotiations between creditors and debtors, a central coordinator with a combination of money and power to convene discussions on treating sovereign debt problems and to push these discussions toward negotiation of actual restructuring terms. Sell-side and buy-side market

Box 5: The New ICMA-endorsed CAC Template

Problems related to non-participating creditors in the 2005 and 2010 Argentina restructurings and the 2012 Greece debt exchange created new impetus to deal more definitively with the holdout problem in sovereign bond treatments. A small group of experts, convened by ICMA and the US Treasury, and which included the IMF, country authorities, market participants, lawyers and academics, met throughout 2013 and 2014 to work on an improved template for CACs that would make them more effective impediments to efforts by small groups of creditors to disrupt debt treatments and extract differential treatment of their claims.

Both the 2003 single-limbed New York CAC and the 2013 double-limbed "euro CAC" are vulnerable to action by minority creditors in relatively small bond series to block activation of the CAC. The 2003 version of CACs introduced into New York-law bonds, like the version of CACs that has long been standard in English-law bonds, features a single-limb voting process in which a super majority of holders of a single bond series may vote to approve changes to that series. While such a vote could trigger cross-acceleration clauses in other bond series, it does not compel the holders of any other bond to engage in restructuring the terms of their series. The euro CAC introduced in 2013 features, in contrast, a double-limb voting procedure in which a super majority of 50 percent is required in a single bond series vote and a majority of 66 percent across holders of all bond series to effect a change in the terms of these bonds. The second limb that tallies support across all bondholders is intended to ensure inter-creditor equity is respected in a restructuring (Bradley and Gulati 2012).

The new 2014 ICMA-endorsed CAC template would allow a distressed sovereign's bonds to be restructured using one of three different procedures:

- Single-limbed, individual series vote (for example, 2003 New York-law CAC, traditional English-law CAC). The debtor government would poll the holders of each bond series. If at least 75 percent of bondholders in an individual series agree to a change in terms, the remaining minority is crammed into a restructuring of that series.
- Double-limbed vote (for example, 2013 euro CAC, Uruguay 2003). The issuer would simultaneously poll holders of multiple series of bonds: if at least 66 percent of all bondholders polled agree to restructuring terms, these terms would then apply to all individual series in which at least 50 percent of bondholders in that series agree to the new terms. Any series that does not reach this 50 percent threshold could drop out of the debt treatment and its bondholders could demand full payment.
- Aggregated vote (for example, CAC retrofitted in 2012 into Greece domestic-law bonds). The debtor government would poll holders of multiple series in a single vote across all such series. If 75 percent of all bondholders polled, regardless of series, agree to the change in terms, then the remainder are crammed into the restructuring. No series and no individual bondholder could hold out, and all bondholders would get the same menu of debt treatment options.

The ICMA (2014) paper also proposes a standardized *pari passu* clause that would pre-empt future courts from imposing Judge Griesa's ratable payments interpretation that would compel issuers to make proportionate payments to holdout creditors whenever they service debt restructured earlier. The ICMA template also suggests a standard 25 percent threshold on acceleration, which would crimp the latitude of holdouts to make their claims immediately due and payable. Finally, to balance the perceived erosion in creditor rights occasioned by stronger CACs, the ICMA paper also advocates engagement, transparency and creditor committee provisions in all new bond contracts, but these elements were not endorsed by the IMF. Robert Kahn and Gregory Makoff (2015) provide a full review of the new CAC template.

participants generally have more faith in the current ad hoc, organic means by which creditors organize themselves and engage with a distressed sovereign. Some feel the IMF is no longer sufficiently large or representative to act as such a ringholder, but it might still be the best option we have; CSOs generally reject this role for the IMF, viewing it as helplessly conflicted by its own creditor status. In the absence of a statutory means to impose a standstill on debt payments while a distressed sovereign organizes its affairs, the ringholder should be able to lead or impose mediation and arbitration processes similar to the dispute settlement mechanisms under multilateral trade and investment treaties, such as those underpinning the World Trade Organization (WTO) and ICSID. Again, the IMF may not be ideal for these purposes, but it may also be the best of existing alternatives.

As noted above, a number of academics, CSOs and emerging-market policy makers remain convinced that anything less than a full statutory international bankruptcy mechanism will be insufficiently robust to deal with complex, expensive and difficult sovereign debt distress.

In many cases, they see such a framework as not merely necessary, but the only reform worth pursuing: everything else is a distraction. Stakeholders from a variety of sectors see advantages in a statutory approach, but most others either view it as a politically impossible project, or an objective that can be pursued concurrently with refinement of the market-based voluntary approach.

On the more specific question of the viability of CDS markets in the wake of the Greek debt exchange, most stakeholders are relatively sanguine. Although the 2012 Greek debt treatment was explicitly designed to avoid triggering CDS, the fact that CDS were activated in the end without much contention largely obviates questions about CDS having been subverted. CSOs, however, query whether ISDA committees should be more broadly representative of diverse stakeholder interests, and debtor interests in particular. Academics also question the inherent conflicts in having buy-side and sell-side investors that actively write and trade CDS represented on the ISDA determinations committees. Academics and CSOs welcome the ban in Europe on "naked CDS" (that is, where CDS are not held as insurance on a related bondholding, but rather as single-limbed investments in their own right), and would like to see it extended elsewhere; market participants generally oppose both the European measures and any geographic extension of them; and non-European policy makers are generally skeptical of further limits on CDS.

5. Should we construct a statutory restructuring framework as a backstop or supplement for cases where ad hoc market-based approaches are not sufficient?

It's worth recalling that the 2001 SDRM (Krueger 2001) proposal was driven by fears that anything less than a statutory framework with the power to impose standstills on debt-service payments and cram in recalcitrant holdout creditors would inhibit future sovereign borrowing on capital markets because of a lack of clarity and predictability in situations of debt distress. Although it may seem remarkable now, SDRM veterans stress that 1980s and 1990s debt treatments were seen by the market as overly arbitrary and, indeed, sovereign issuers and private creditors both perceived merit in moving to a more orderly approach to treating sovereign debt problems. The SDRM was a direct response to this demand, not an arbitrary empire-building exercise by the IMF.

The potential benefits of a statutory restructuring framework over and above more informal, soft-law approaches remain salient. Such a framework would allow for an orderly prioritization of creditor claims, a payments standstill for a distressed sovereign to adjust and propose restructuring terms to its creditors free from litigation, a legal process to adjudicate and settle disputes, an international legal context in which DIP financing could be provided by private creditors and non-senior official creditors other than the IMF, and a durable conclusion to restructurings that would be unlikely to be reopened by uncooperative creditors. The credibility of a statutory framework could discourage both overlending and overborrowing, and reduce moral hazard. It would not, in itself, reduce the *ex ante* costs of a restructuring; indeed, its availability could, in some contexts, increase tendencies toward delay rather than reduce them, since initiation of a statutory process may be seen as a radical step. A statutory framework should, however, unambiguously decrease the *in medias res* and *ex post* costs of restructuring by streamlining the process and making restructuring terms stick once they have been agreed. This said, the potential benefits of a statutory restructuring framework could largely be achieved by writing standstill and arbitration provisions into debt contracts, as José Antonio Ocampo (2014b) and Kunibert Raffer (2014) have proposed.

Regardless of wide agreement on the potential benefits of a statutory framework, views vary substantially on whether such a framework *should* be pursued. Some stakeholders see the enhanced 2014 CAC template as partially obviating the need for a statutory framework, while other stakeholders see improvements in voluntary, contractual approaches as entirely complementary to parallel work on statutory regimes. Views on whether both the statutory and market-based channels of reform can or should be pursued at the same time depend less on a stakeholder's sectoral self-interest and much more on individual thoughts on whether they represent zero-sum pursuits that take political and institutional bandwidth from the other; individual theories of political change that tip one toward pragmatic incrementalism or Cartesian perfectionism; and specific experiences with the last few decades of reform.

Could the main features of such a framework be created through voluntary principles on provision of information, rules of conduct and procedures for dispute resolution? Or would such provisions need to be legally formalized?

The development of informal principles for borrowing, lending and restructuring by UNCTAD (2012) and the IIF (2012) are seen as positive guideposts, but this sentiment is balanced by doubts about how much they can achieve. In some cases, legal scholars exhibit the most skepticism toward the potential effectiveness of such principles, while legal practitioners show more openness to them and comment on how they have already helped guide processes in the Greek restructuring and in corporate debt workouts. In many cases, such principles could also form the basis for future model contractual provisions in debt contracts rather than the foundations for overarching statutory frameworks. Alternatively, the application of informal principles, precedents and protocols that already work effectively in non-institutions, such as the Paris Club, could be expanded in their scope, made more independent and applied to include a wider range of restructuring cases and constituencies of creditors and debtors. The precedents for successful application of soft-law approaches to sovereign restructuring are already substantial.

Could the IMF be involved in this framework or would it be viewed as having a conflict of interest as a creditor?

While most stakeholders agree there is some conflict of interest involved in the notion of the IMF, a senior creditor, acting as a mediator, arbitrator or any other form of restructuring facilitator, there is also a concession from many quarters that the IMF may be the only institution that could act as a convener in either an arbitration process written into debt contracts or a more comprehensive and discretionary statutory framework. Civil society is generally most disquieted by the existing role of the IMF in debt restructuring and most unwilling to contemplate an even more central position for the Fund. Some CSOs refuse to engage with the IMF on debt restructuring issues to avoid an implicit legitimation of its role. Market participants have a variety of views.

OPTIONS FOR CHANGE: STAKEHOLDERS' REFORM PROPOSALS

Any reform agenda to get us to "just enough, just in time" has to contend with the likelihood that the initial *ex ante* cost of restructuring will almost always narrowly appear more expensive than providing a publicly financed bailout under the current non-system. As a result, there is an inherent inertia that militates against action on reform. At least some stakeholders will usually be inclined to stick with the status quo rather than risk losing leverage in the restructuring process as a result of reforms. Some stakeholders see the IMF and existing legal systems as already having sufficient tools at their disposal to make sovereign debt restructuring work better: the only outstanding need, in this view, is greater resolve by IMF staff and member countries to use these tools more effectively, particularly in making disciplined decisions on which cases of illiquidity merit support to avoid a restructuring and which cases reflect true insolvency requiring a restructuring and a fair distribution of related costs. Most stakeholders, however, see the possibility of further improvement in the existing non-system to reduce costs for debtors, creditors and citizens. Working inductively from the broad diagnosis that creditors tend to lend too much, governments tend to borrow too much and problems tend to be addressed too superficially and too late, there is a bevy of options to engineer solutions to these problems. These possibilities can be broadly grouped under six themes in increasing degree of ambition as follows: enhanced prevention; limited minimalism to make restructurings stick; comprehensive minimalism featuring non-statutory, soft-law efforts to make restructuring less costly; IMF-specific policy modifications to restructuring processes; the creation of statutory and treaty-based regimes; and European-specific initiatives.

ENHANCED PREVENTION

The benefits of enhanced efforts to prevent sovereign debt crises may not always trump the returns to improved restructuring technologies, but a greater focus on prevention would at a minimum reduce long-term volatility in the global economy.

Better Data and IMF Surveillance

Given that the IMF does not — and cannot — always sound alarms adequately or promptly, stakeholders are generally interested in more data and greater transparency in the Fund's surveillance process rather than more analysis. The IMF's published analysis is inevitably constrained by member countries' oversight. If country authorities and the IMF were simply to publish better data, stakeholders themselves could analyze it and take actions that would discipline both creditors and debtors toward the prevention of vulnerabilities. Any such expansion in data provision should go beyond straightforward metrics of flows to include balance-sheet considerations as well. Some analysts also propose that in the wake of concerns about data quality in Reinhart and Rogoff (2009) and Thomas Piketty's (2014) work, the IMF may also wish to provide hyperlinks in its reports to underlying spreadsheets and databases so that its analysis can be rigorously vetted and its assumptions laid bare. Finally, many stakeholders would like to see IMF member countries renounce their right of refusal on publication of IMF staff analysis to ensure that the Fund staff is empowered to provide unvarnished views. Mindful that this recommendation is unlikely to be implemented, some market participants call for the creation of an arms-length committee of IMF member countries that could review staff reports and separate sensitive material from that which is merely inconvenient.

An International Debt Registry

A registry of debt issuance and creditor holdings could aid in surveillance by making vulnerabilities easier to identify proactively. The Financial Stability Board's single identifier system may provide aspects of a registry's functionality, but some academic and CSO stakeholders call for a more comprehensive system tied to IMF surveillance and other oversight of incipient vulnerabilities. They posit that a registry would also make restructurings easier and faster to organize. Market participants caution, however, that this would undermine the attractive anonymity of bearer bonds and potentially inhibit the liquidity of debt markets.

Continued Improvement in the DSA

Market, academic and policy stakeholders welcome the recent refinements of the IMF's DSA framework and its publication online (IMF 2013b), and would like to see further steps in reinforcing the DSA's utility. The distinction between market and non-market countries, the focus on a risk-based approach to projecting putative sustainability and a presumption that DSAs will now feature in all Article IV staff reports are together significant improvements for the early identification of debt problems. Building on these refinements, there is broad interest in substantiating greater realism in baseline DSA assumptions and publishing information on IMF teams' projection track records, all with a view to making DSAs more credible, more protected from political pressure and more easily replicable by outside analysts. This replicability and credibility of the DSA is seen by some as essential for the continued maintenance of the IMF's PCS.

Greater Clarity on Expectations of IMF Support

Markets, citizens and some policy makers crave greater predictability in IMF lending and restructuring decisions, but views vary on how this can best be achieved. There is more agreement on what should be avoided than on what specifically should be pursued. The notion of generating greater automaticity by predicating some IMF lending on a commitment by a debtor sovereign to pursue a debt restructuring when its obligations hit a pre-determined threshold, an idea last mooted by Broomfield and Buchheit (2013) and the CIEPR (2013), is widely rejected as insufficiently flexible. At the same time, there is skepticism in most quarters that the IMF's lending can truly be constrained in ways that make its decisions to support countries easier to anticipate: pathways to exceptions and discretion will always be found, given that the IMF cannot credibly walk away from systemically important crises.

In this context, the IMF's possible addition of debt reprofiling to Fund-supported programs where solvency is uncertain, and the proposal to eliminate the systemic waiver on exceptional access, are seen as positive first steps to make expectations of IMF support clearer and more reliable, and to reduce political pressure on the IMF staff to declare possibly insolvent countries solvent to enable lending to take place. Removal of the systemic waiver is likely to be the subject of continued discussion in the coming months and years, but it's unlikely to happen so long as the euro zone faces even a whiff of existential threat. Indeed, in the absence of quota reform, some stakeholders who dislike the waiver see its removal and further constraints on IMF discretion as premature and possibly irresponsible. Timing aside, and beyond the simple removal of the systemic waiver, there is still broad interest in seeing enhanced coherence restored to the EAC/EAP and its application. Some IMF veterans think the wording of the EAC/EAP can be tightened; others see less utility in editing the EAC/EAP and greater effectiveness in creating a more visible distinction between IMF staff recommendations and IMF executive board lending decisions so that breaches of lending limits are wholly owned by the board. For those who see standstills under sovereign contingent convertible bonds ("cocos") and other forms of state-contingent debt as too automatic and rigid, this represents a lighter approach and allows room to lend to countries to muddle through in situations where global economic conditions may rescue them, as was the case for Turkey and Brazil in the early 2000s.

Better Precautionary IMF Lending Instruments

In order to reduce member-country inhibitions on the use of the pre-emptive power of the precautionary FCL and PLL to prevent debt crises, the IMF should change the vetting and approval process for these facilities. Instead of forcing countries to go through the apparent shame of asking for pre-approved access to these facilities, such availability should be provided to all countries that meet established criteria in the course of their regular IMF Article IV reviews. The FCL and PLL would move from being opt-in facilities to a default presumption that most countries not already in Fund-supported programs would have access to them. On the downside, though, this would immediately show that available IMF lending resources are inadequate for the possible challenges ahead.

An Advisory Council for the IMF

An eclectic, albeit small, set of stakeholders calls for the development of a "council of wise people" to advise the staff and executive board of the IMF and counter-balance political pressure from member-country capitals. Some stakeholders see such a council as a corollary to the monetary policy committees of independent central banks. In contrast with the IMF's Independent Evaluation Office, which provides *ex post* assessments of Fund activity, such a council would provide *ex ante* advice that would be more independent than the IMF's executive directors, who operate under the guidance of their governments. Such a council could be charged with receiving the staff's surveillance and lending reports and reviewing them in a more independent fashion than is possible under the current executive board configuration. Some stakeholders, however, view such a council as redundant: the IMF staff should be able to provide unvarnished advice without such a council, and the council may in any case be captured by member-country interests.

Widely Endorsed Voluntary Codes on Borrowing, Lending and Restructuring

Most stakeholders are pessimistic about the possibility that 188 IMF member countries would together agree to adopt wholesale any generic code on borrowing; they take an equally dim view toward hopes that a substantial share of the entire universe of creditors would sign on to a lending code. Nevertheless, many see utility in voluntary adherence to principles such as those proposed by the IIF (2012) and UNCTAD (2012). For issuers, in particular, some stakeholders note that credit-rating agencies should explicitly take adherence to voluntary codes of conduct into account in their assessments.

The IIF's *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* (IIF 2012) have led to a regular consultation process on best practices. Not all stakeholders, however, are satisfied that this framework is sufficiently balanced: it expects much of debtor countries, without making symmetric demands of creditors that bind them in meaningful ways. Some synthesis with UNCTAD's *Principles on Responsible Sovereign Lending and Borrowing* (UNCTAD 2012) could provide that balance. Whatever framework is adopted by either borrowers or lenders, it should be accompanied by a monitoring mechanism, similar to reviews conducted under the Extractive Industries Transparency Initiative, to give the principles independence and ongoing credibility.

Rather than statements of comprehensive principles, some stakeholders advocate simpler, streamlined rules for independent adoption by individual governments in a concerted fashion, much like the Asia-Pacific Economic Cooperation's approach to trade liberalization through open regionalism. The governor of the People's Bank of China (PBoC), for instance, advocated in 2012 that all countries limit themselves to issuance of domestic debt in order to minimize vulnerabilities; where domestic saving is insufficient for development needs, external debt would be issued only under the review of a third party such as the IMF or another multilateral (House, Wang and Xafa 2014). Martin Wolf (2014) has echoed the PBoC proposal, but sees little likelihood of its adoption; Panizza (2007), however, cautions that even domestic debt can generate substantial vulnerabilities. As a less extreme option, some policy makers instead suggest that emerging and frontier markets constrain themselves to the issuance of amortizing debt, eliminate issuance of bullet bonds and cut themselves off from floating-rate debt. This should make their debt service profiles less lumpy and reduce the likelihood that a particular spike in liabilities would coincide with an exogenous negative shock to the country.

LIMITED MINIMALISM TO MAKE RESTRUCTURINGS STICK

This set of reforms is focused on innovations in the contractual language of bonds and treaties to make it easier to enforce the terms of restructurings once they have been agreed by providing disincentives and limits to legal challenges. As with all contractual innovations, these changes will take time to be reflected widely in the debt stock of sovereigns: with the average maturity of most emerging countries' debt stocks somewhere between five and seven years, it will take at least this long for about half of their debt to reflect these proposals.

Further Enhancements to the Design and Effectiveness of Bond Contracts

Making bond contracts more impervious to unconstructive holdout creditors is an ongoing project. The incremental improvements achieved under the 2014 ICMA CAC template are important in streamlining CACs into single-limbed votes, providing a model for aggregation, setting a standard threshold on acceleration and establishing limits on the interpretive scope of *pari passu*, but past experience makes clear that, *inter alia*, new debt structures, future litigation, evolving legal interpretations and conflicts in laws will likely lead to the identification of gaps in the ICMA language that future holdouts will exploit.

The informal, ad hoc group of stakeholders convened to draft the ICMA template should be made into a more representative standing committee under an existing or new body. This standing committee could ensure continuous monitoring of incipient problems that need to be addressed in the new contractual template, advocate for its application in more issuance, and regularly issue updates and improvements that reflect evolving needs and issues. Ideally, this committee should regularly report to the Group of Twenty (G20) and its members should act on its counsel.

Liability management operations should be encouraged to swap old debt for bonds that incorporate the new CAC template and limits on *pari passu* (Kahn and Makoff 2015). The new CAC language becomes powerful only when most of the debt lacking its refinements gets replaced by new bonds; the IMF (2014c) estimates that this will take more than 10 years for most emerging markets through the organic retirement of existing bonds at maturity. This process could be sped up by collective action to remove the possible stigma associated with undertaking a comprehensive swap to replace outstanding bonds in one fell swoop. If several large emerging-market countries were to initiate at the same time liability management operations of this sort, it would neutralize any suggestion that they were doing so in anticipation of financial distress and a possible debt restructuring. For low-income countries, contributions could be raised toward a trust fund to subsidize the costs such operations would generate. IMF resources might also be dedicated to an effort to ensure all foreign-law emerging market debt is swapped for bonds with the new CAC provisions. The IFIs could also provide technical assistance to individual countries on incorporating the new CACs into their domestic law bonds through local swap operations.

It may also be possible to backward-engineer aggregated CACs into existing New York-law sovereign bonds, much as Greece did in 2012 with its domestic-law debt. In 2012, the Greek parliament passed omnibus legislation that inserted an aggregated CAC into outstanding Greek domestic-law bonds, which facilitated their subsequent restructuring (Zettelmeyer, Trebesch and Gulati 2013). A combination of New York and US federal legislation, to deal with any sovereign immunity issues, could facilitate with willing sovereigns a similar retrofitting of aggregated CACs to bonds issued under New York law. Further work on this possibility could be undertaken.

Immunization of Payment Systems

Payment systems under English, New York and other jurisdictions should be given full protection from attachment by holdout creditors and overreach by national court systems. The threat of attachment is injurious to the custodial and clearance operations carried out by third parties that have no direct involvement in the economic relationship between creditors and debtor sovereigns. This reduces the efficiency of debt markets. As noted above, Citibank Argentina, acting as a clearing agent on Argentine domestic sovereign debt, recently found itself caught between a possible finding of contempt by the US Second Circuit Court under its 2013 ruling prohibiting payments on existing debt so long as holdout creditors on Argentine New York-law debt not included in the 2005 and 2010 exchanges are not paid commensurately; and an order by the Argentine authorities to process payments on their restructured debt or risk the removal of Citi's local permits to operate (Prengaman 2015). These continuing consequences from Judge Griesa's novel ratable payments interpretation of *pari passu*, the implicit extension of the reach of the New York courts and the confusion of domestic-law debt with foreign-law debt could all be at least partially remedied by excluding payments systems from the legal pursuit of debtor sovereigns by creditors. Belgium (Government of Belgium 2004) and Luxembourg's actions to immunize Euroclear and Clearstream, respectively, from creditor attachment provide a template for other jurisdictions, including New York.

Exclude Sovereign Debt from Investment and Trade Agreements

Ensuring investment and trade agreements are not used as backdoor channels for uncooperative creditors to reopen settled debt restructurings requires a three-pronged approach. First, all new trade and investment treaties should be written to include explicit exclusions on such use of their dispute settlement mechanisms; a template should be developed by legal experts as a guide for future drafters of bilateral and multilateral trade and investment accords. Second, where possible, existing pacts should be amended to exclude their use by bondholders or other sovereign creditors. Third, bond contracts should be written or, where possible, be amended to rule out any recourse by bondholders to the dispute settlement facilities under free trade and foreign investment treaties.

Limit Claims by Secondary-market Creditors

Martin Guzman and Joseph Stiglitz (2014) call for the restoration of a broader version of the Champerty doctrine for New York-law and other sovereign debt. Champerty is a legal tradition with ancient roots under English common law that, *inter alia*, rules out an agreement to divide litigation proceeds between the owner of a litigated claim and a party unrelated to the lawsuit who supports or helps enforce the claim (Bundy Smith and Hall 2012). A broad interpretation of Champerty would imply that creditors cannot expect to collect on distressed debt purchased on secondary markets with the sole intent of suing for payment; that is, this expansive application of Champerty would inhibit holdout creditors. The New York Appeals Court tightly limited the application of Champerty within its jurisdiction in 2009. Guzman and Stiglitz argue that a somewhat expanded, though still constrained, form of the Champerty doctrine could be opened up under New York law to limit the power of holdout creditors while still respecting creditor rights. It is difficult to see how this could be done, however, without substantially impairing the secondary market for sovereign bearer bonds; both market participants and policy makers are likely to resist such a move.

COMPREHENSIVE MINIMALISM: NON-STATUTORY EFFORTS TO MAKE RESTRUCTURING LESS COSTLY

The measures below rely on a combination of voluntary, soft-law and contractual provisions to reduce the *ex ante* and *in medias res* costs of sovereign debt restructuring.

An SDF

Richard Gitlin and Brett House's (2013, 2014a, 2014b) SDF proposal for a singular bigger, broader and more comprehensive debt restructuring round table, would add two major features to the current sovereign debt restructuring non-system.[1] First, it would provide an independent standing body for proactive discussion on emerging debt distress among a comprehensive range of debtors and creditors, as well as other stakeholders. This would help reduce the *ex ante* costs of treating sovereign debt by dampening the inhibitions to triggering such dialogue by making the conversation continuous; it would also reduce the *in medias res* costs of restructuring by facilitating a smoother negotiating process. Second, it would provide a standing research centre to refine and improve approaches to managing sovereign distress while maintaining institutional memory from past debt restructurings. In contrast with merely expanding the Paris Club's sovereign membership, the SDF would include representatives of a broader range of stakeholders, it would be distinct from creditors, it would maintain an ongoing and proactive dialogue, and it would develop and help advance systemic reform proposals.

An SDF has been characterized by some academics and policy makers as an "embarrassingly simple" idea. It is, but it is also essential. An SDF could engage new official creditors that are disinclined to join the Paris Club, but which still see merit in replicating and extending its functionalities to organize their interaction with debtor states. Both academics and policy makers emphasize that the Paris Club's success is directly tied to the close relationships forged between the country representatives involved in its processes; an SDF could expand this web of trust, shared understanding and effectiveness. Some market participants note that the IIF provides this functionality for some creditors, but that it needs to be integrated more effectively with official processes and institutions. A few academics and country authorities are skeptical that an SDF can be made to work with a substantially more diverse set of stakeholders involved. Others are simply dismissive of the SDF concept, noting that if creditors and debtors wanted to meet in this fashion, they would spontaneously organize themselves: they could simply meet at Starbucks, as one quipped. Additionally, they see little point in pursuing an SDF that doesn't have a statutory framework that binds in stakeholder participation.

Some creditor, debtor and market representatives are also unconvinced of the necessity of a quasi-institutional memory and store of best practice. In their view, each case of sovereign debt distress is sufficiently different that each one requires a *de novo* process (Rieffel 2003). This discounts too heavily the value of the predictable procedures and restructuring norms that an SDF could concretize. These need to be extended to incorporate more creditor classes in an organized and predictable fashion.

Arbitration Processes

Taking a next step beyond a soft-law SDF, Jürgen Kaiser (2014) and Ocampo (2014b) propose options for sovereign debt mediation and arbitration processes. Such processes would kick in if earlier discussions in an SDF-like forum were to prove inconclusive. Ocampo envisages a process modeled on the multi-stage dispute settlement mechanism on trade issues operated by the WTO. The WTO's dispute settlement mechanism has been so successful that member countries often seek its assistance in clearing disagreements under bilateral treaties that have their own resolution processes. Mediation and arbitration could be triggered under provisions of the legal jurisdiction in which the debt was issued or under an international treaty, but such a treaty is unlikely to emerge any time soon. A more straightforward option would be to include standard language on mediation and arbitration in future debt contracts and to undertake liability management operations to swap old debt for new debt bearing these provisions.

Private Provision of DIP Financing

Questions about the legitimacy and continued viability of the IMF's PCS implicitly lead to a related query on why the IMF should be the only provider of DIP financing for sovereigns that have otherwise lost access to issuing in capital markets. There was a brief attempt during the 1980s Latin American debt crisis to include private creditors in the provision of such balance-of-payments support, contingent on this financing also being accorded PCS. Unfortunately, their senior creditor status was quickly broached and private provision of such financing dried up. For years, UNDESA's Financing for Development Office has been a lone voice in advocating private provision of DIP financing. Now that Schadler (2014) and others have called the IMF's PCS into question, one way to ensure disciplined use of this status would be to help facilitate other, competing sources of DIP financing. Under existing Paris Club modalities, this would require the extension of the cut-off date on debt treatments to exclude from restructurings private DIP financing and durable legal protections on the senior status of these monies against future restructuring under English, New York and domestic issuance jurisdictions, which could only be assured through a comprehensive international legal treaty. Nevertheless, it may occasionally be possible to negotiate *de facto* private DIP financing on a crisis-by-crisis basis when the constellation of creditors is small and their interests are closely aligned. The European Bank

1 The SDF proposal was presented in its first iteration by Richard Gitlin in 2002 and has since been echoed in similar forms within a variety of stakeholder proposals (for example, Hubbard 2003).

Coordination "Vienna" Initiative achieved this in 2009 and 2011 when, through concerted discussion, it helped to prevent cross-border transmission of vulnerabilities by ensuring banks maintained and rolled over their existing financing facilities in Eastern Europe.

Sovereign Cocos

The concept of state-contingent fixed-income instruments with quasi-equity qualities dates from the 1930s. Such instruments have been issued at various times by a variety of sovereigns, but their potential to make restructuring work better has not been fully realized (Grossman and Van Huyck 1988). Mexico issued oil-indexed bonds in the 1970s; in the 1990s, Mexico, Nigeria, Uruguay and Venezuela issued Brady bonds whose returns were tied to commodity prices, while Costa Rica, Bulgaria and Bosnia-Herzegovina issued GDP-linked bonds under other Brady restructurings. More recently, Argentina in 2005 and Greece in 2012 issued GDP-linked warrants as sweeteners in their respective debt exchanges. In a series of papers, Mody (2013), Eduardo Borensztein and Paolo Mauro (2004) and others refocus attention on sovereign cocos' appealing capacity to provide relatively automatic debt-service abatements and standstills in the absence of statutory mechanisms. Axel Weber (2010) also advocated strongly for sovereign cocos and most recently a Bank of Canada discussion paper (Brooke et al. 2013) developed the concept further, outlining configurations that would see two-to-three-year reprofilings of interest and maturities falling due during the disbursement phase of an IMF program or in response to negative exogenous macroeconomic developments, such as a drop in GDP growth. Macro-linked cocos' risk-sharing features could be made symmetric between debtors and creditors by raising debt service when conditions are particularly good to compensate for cuts in debt service when conditions are poor.

Sovereign debt management offices have been reluctant to issue cocos and other forms of state-contingent debt on the presumption that they will be difficult for the market to price and trade: this reluctance needs to be countered by the issuance of a coco by a major sovereign. Market participants echo this concern, underlined by fears that coco paper would be relatively illiquid; similarly, asset managers indicate that the hybrid structure of sovereign cocos may make them difficult to incorporate into their existing investment mandates. These concerns are surely overblown. The corporate coco debt market is already substantial and growing. There is little about sovereign cocos that requires more difficult modelling than the basic fundamental macro analysis that underpins any investment in fixed-income instruments. Investment mandates would surely be changed to accommodate cocos if they provide a useful investment opportunity and become more commonplace. And liquidity would become a non-issue if some major high-quality sovereign credits were to issue cocos in reasonable size. These countries should lead the way in making cocos a standard product in sovereign debt markets.

Revisit the Composition of ISDA Determinations Committees

The Determinations Committees of ISDA make binding determinations regarding key provisions of CDS contracts. They rule on whether a credit event has occurred; whether an auction should be held to determine the final price for CDS settlement, and if so, which obligations should be delivered or valued in the auction. CSOs and academics are particularly concerned, however, by the composition of ISDA committees: they are made up of buy-side and sell-side market participants who may themselves have written or own CDS, which presents a particular conflict in cases of naked CDS positions. Concerned stakeholders want to see the committees subjected to more independent oversight.

Better Consultation with and Engagement of Civil Society

Most CSOs, and some academics, are keen to see the nuts and bolts of sovereign debt restructuring opened up to greater transparency, public scrutiny and accountability. They argue that citizens merit greater involvement, owing to their capacity as implicit creditors of indebted sovereigns and the source of democratic legitimacy. This could lead to direct involvement of taxpayer, pensioner and other citizen groups in the negotiations on debt restructuring and adjustment terms.

IMF-SPECIFIC POLICY MODIFICATIONS TO RESTRUCTURING PROCESSES

Following from its diagnosis of "too little, too late," the IMF (2013a) outlined a work program on sovereign debt restructuring. The Fund's agenda includes the reform of CACs and *pari passu* that was completed in 2014 in collaboration with ICMA, as well as the Fund's possible introduction of reprofiling to the range of options for dealing with debt problems under IMF-supported programs. Removal of the systemic waiver to the EAC/EAP, a move suggested a year earlier by Schadler (2013), remains pending, as do efforts to broaden the Fund's lending into arrears (LIA) policies and to integrate new creditors more effectively in sovereign debt restructuring processes. The proposals that follow look at IMF-specific options for advancing further on this work program.

IMF Endorsement of Debtor Engagement, Transparency and Creditor Committee Contractual Clauses

When the IMF (2014c) endorsed the new template on contractual language published by ICMA (2014), it conspicuously omitted a statement of support for ICMA's suggested clauses on debtor engagement with creditors, enhanced transparency and support for creditor committees. While some CSOs question the need for these clauses (Coplin 2015), the expectation that debtors will engage actively and transparently with their creditors is entirely consistent with the IMF's broader corpus of policies. Creditor committees can provide an effective and efficient vehicle for this engagement (DeSieno 2014). Some market participants are particularly interested in seeing the IMF endorse these clauses or propose constructive alternatives on these issues.

Extensions of the Fund's LIA Policy

The April 2013 IMF paper mooted the possibility of extending the IMF's LIA policy to include official bilateral arrears (2013a). This extension would allow the IMF to provide support to sovereigns who are in arrears to both private creditors and other sovereigns; at present, arrears to official bilateral creditors have to be cleared before the IMF can lend. Initial reactions to this suggestion have so far been muted: the proposal has garnered very little attention. But, if anything, the proposal should go somewhat further. The LIA policy's expectation that sovereigns should engage in good-faith negotiations with their creditors to clear arrears should be expanded and applied to official bilateral and private creditor relationships both inside and outside of IMF program lending: it should be a basic tenet of IMF membership. That said, to the extent that anyone has paid attention to this useful proposal, at least one academic (Lastra 2014) argues that the entire LIA policy should be scrapped and that good faith negotiations on clearing arrears should be ensured through old-fashioned conditionality since it is difficult for the IMF otherwise to assess adequately the fulfillment of the criterion.

Automatic Debt Restructuring as a Condition for IMF Lending

As noted earlier, the notion of tying IMF financing decisions to an automatic expectation of debt restructuring in cases where debt-GDP ratios have passed certain pre-announced thresholds was recently mooted by Broomfield and Buchheit (2013) and the CIEPR (2013), and received a tepid reception. While many stakeholders agree on the imperative to limit both debtor and creditor moral hazard, evidence on the extent to which such moral hazard affects borrowing and lending decisions is mixed (Becker, Richards and Thaicharoen 2003; Jeanne and Zettelmeyer 2004). Some stakeholders are unwilling to see IMF discretion constrained by automaticity in this way and to this extent. Hence, the proposal did not feature in the June 2014 IMF (2014b) paper on reforms to its lending framework and has not garnered further support. But, if one is serious about making the EAC/EAP framework more effective at imposing binding constraints on the use of IMF resources, greater automaticity in debt restructuring would be one natural way to do this, particularly absent an increase in IMF quotas.

A New, Very Short-term IMF Lending Facility

Over the last year, several emerging market countries (Rajan 2014) have noted an important gap in the IMF's portfolio of lending facilities: a very short-term lending instrument — akin to a central bank liquidity swap — that goes beyond the first credit tranches in size. Such a facility would be a useful tool for reprofiling in cases where debt sustainability is not assured (English and House 2014). A short-term instrument of this ilk would provide additional breathing room during a "wait and work" period (as opposed to a passive "wait and see" time) while a country takes adjustment measures in an attempt to increase the certainty of its debt sustainability. Unfortunately, this proposal was opposed by the United States in 2011 and is unlikely to be raised again in the regular review of IMF lending facilities expected in the coming year.

Approval of 2010 Package of IMF Reforms

Final ratification of the 2010 package of reforms to double permanently the IMF's quota resources and update the distribution of voting power on its executive board would obviously make the Fund a more powerful and effective facilitator in efforts to address sovereign debt distress. These reforms could even allow the IMF to prevent some restructurings by providing more financing and giving countries more space to grow out of their problems. There is general agreement that the White House should step up its efforts to win ratification of the 2010 reform package from the US Congress (House 2015).

STATUTORY AND TREATY-BASED REGIMES

The September 2014 UN resolution (UN 2014) calling for work toward the creation of a statutory framework for sovereign debt shows that, despite the SDRM proposal's rejection in 2003, there is still substantial interest across a wide range of countries in moving toward a hard-law structure for sovereign debt restructuring. Support for a statutory mechanism is strongest among CSOs, public-sector veterans of the SDRM's development and emerging-market authorities (House, Wang and Xafa 2014). The main anticipated benefits of such a framework would include greater political and democratic legitimacy, a predictable process for dealing with distressed sovereign debt, the availability of legal standstills on debt payments and prosecution by creditors, a clear process for ordering the priority of creditor claims, the power to cram in all creditors to a legal settlement and a definitive conclusion to restructuring processes that obviates the possibility of reopenings by holdout creditors. Moreover, a statutory framework would be immediately effective: unlike the new CAC template, there would not be a delay in coming into operation as the world waits for outstanding debt to roll over into new contracts.

The details of the framework the UN resolution could bring about remain to be identified and may benefit from UNCTAD's pre-existing work on core principles for a debt workout mechanism, but the effectiveness of any eventual proposal will hinge on the breadth of support it receives. The UN resolution didn't receive support from Japan, the United Kingdom or the United States, the jurisdictions where most foreign-law sovereign debt is issued by emerging markets. As such, even if the UN process results in the creation of a framework, the structure would not apply to most of the debt for which it would be most needed. To remedy this mismatch, emerging-market sovereigns could decide to move their external issuance from traditional financial centres to new financial capitals in countries that participate in the eventual framework. This is entirely possible, and indeed, creation of a statutory framework could help bring this about, but as with the new CAC template, under this scenario the new framework would become powerful only once a substantial share of debt has been shifted to participating jurisdictions through organic rollovers or liability management operations. Some feasible structures for this framework and alternatives are outlined below. It's worth underscoring that a statutory framework could be created under an internationally agreed treaty or through the adoption in individual countries of common legislation: neither approach necessarily trumps the other.

SDRM Redux

It would be straightforward to simply revive the IMF's final 2003 SDRM proposal (Boorman 2006). Doing so would, however, require greater clarity than is currently extant on what that proposal was and what it wasn't. Although the SDRM is often characterized casually as a Chapter 11-style bankruptcy court for sovereigns, in its last version the SDRM was much closer to a super CAC: it could be activated only on the approval of a substantial share of creditors and the sovereign debtor. Action on a restructuring agreed under the SDRM would also require their support. A dispute settlement process would also be created to resolve differences. As such, an SDRM would offer a more consensual process than a straight bankruptcy court, and would be closer in tone to some of the soft-law or contract-based proposals outlined above.

An SDRM could be located within the IMF, but to assuage concerns about conflicts of interest owing to the IMF's own status as a creditor, some stakeholders indicate that an SDRM proposal would gain more support if it were to be located in another existing or new stand-alone institution. Despite the fatal challenges faced by the SDRM in 2003, the IMF would be a relatively easy place in which to locate such a mechanism. The mechanism could draw on IMF staff and their expertise in its operations, even if such staff are seconded to it and technically removed from the IMF itself. Creating a comprehensive, global mechanism through the modification of the IMF's Articles of Agreement is also simpler than under a UN General Assembly resolution: with voting power in the IMF executive board weighted to shareholdings rather than evenly distributed by country, it could be easier to broker a compromise on the exact shape of a statutory mechanism within the context of the IMF than at the UN General Assembly. That said, the fact that within the Fund a veto of the creation of any mechanism at all requires only 15 percent of the voting power in the board means that, in contrast with the UN route, it is more difficult to create an experimental mechanism under the Fund, demonstrate it works, and gradually accrete support for it from the large financial centres. For those who blanch at the notion of constituting such a mechanism under the United Nations, which many stakeholders see as lacking the capacity to run such a framework, a treaty could alternatively be negotiated and signed inside UN processes and an institution created outside the organization, or the entire negotiations could also be moved outside the United Nations to an ad hoc gathering, at the cost of some democratic legitimacy.

There's still some question as to whether all of the effort to create an SDRM would be worth the trouble. Despite its appeal, an SDRM or any similar process could not be forced on a sovereign: debtor countries would always have an option to persist with the existing ad hoc non-system or they could limit use of an SDRM (at least as constituted in its final 2003 version) to particular classes of debt. Its standstill features may be of limited marginal additional utility in view of the legal immunities sovereigns already have and the recent improvements in CACs. Yet, creation of an SDRM would still require a universal treaty or change to the IMF's Articles of Agreement, as well as the constitution of a judicial panel to oversee voting and arbitration disputes.

Addition of a Resolvency Chamber to the International Court of Justice

Proposed by Steven Kargman and Christoph Paulus (2008) and Paulus (2012), a "resolvency" chamber for the International Court of Justice — so named because of its focus on restoring a sovereign to solvency — would provide an SDRM-like process. It would be distinct from an SDRM in that it would be entirely independent of both creditors and debtors, and would not necessarily require the endorsement of either for a process to be initiated. The impediments to the creation of a resolvency chamber are great — but no more significant than those implied by other hard-law options. It would be easier to constitute than an IMF-based SDRM because countries could sign on individually to participation in the chamber and a large plurality of sovereigns would not be required to constitute it. The proposal attracts substantial interest among CSOs, academics and some emerging-market authorities, but the major financial centres do not evince much support for it.

Statutory Arbitration Structures

In a further twist on statutory processes, Raffer (1990; 2003) and Kaiser (2013) put forward a sovereign debt arbitration process modelled, as Ocampo (2014) also proposes, on the US Chapter 9 framework and the WTO and ICSID dispute settlement mechanisms. In contrast with Ocampo, Raffer and Kaiser's Fair and Transparent Arbitration Process would be based on common statutory initiatives in participating countries or an agreed international treaty, rather than derived from contractual provisions in debt contracts. The proposal attracts interest from a wide range of stakeholders, but many see greater probability of progress on the Ocampo approach to arbitration given its reliance on action by individual sovereigns to insert provisions for it in the contractual language of their bond contracts rather than via a negotiated and agreed treaty.

EUROPEAN-SPECIFIC INITIATIVES

Although Europe has already implemented an ambitious range of reforms since the outbreak of the Greece crisis, stakeholders highlight a number of ways in which the euro zone could strengthen further its approaches to dealing with sovereign debt distress. Most European stakeholders do not expect any of these measures to be implemented imminently, given that it is still so soon after the first round of debt-related institution building in the euro zone to reopen these initiatives. Nevertheless, full reporting on this consultation process merits the review of these proposals here, especially since Scotland recently suggested itself as a centre for future global sovereign debt restructuring processes (Government of Scotland 2013).

Differentiated Bond Proposals

Over the last few years, a number of proposals have been made to mutualize risk for euro-zone countries that borrow within prescribed limits (usually defined by debt-GDP ratios). For instance, Jakob von Weizsäcker and Jacques Delpla (2010) propose that EU countries pool up to the equivalent of 60 percent of GDP of their national debt under joint and several liability as senior debt or "Blue Bonds," which would reduce the borrowing costs for this portion of their debt. Any national debt beyond a country's Blue Bond allocation would be issued as national, junior debt or "Red Bonds," accompanied by an orderly process for restructuring in the event of payment problems. This would enhance fiscal discipline by increasing the marginal cost of borrowing beyond 60 percent of GDP. A 2011 paper (Brunnermeir et al.) recognizes that joint and several European Blue Bonds are not politically feasible, and propose instead that a European debt agency buy European government bonds up to 60 percent of each country's GDP and repackage them into Euro-Safe-Bonds (ES-Bies). Similar to a collateralized debt obligation, the ES-Bies would be rated according to the pooled risk of participating governments, which should lower costs of borrowing in weaker countries up to their 60 percent-GDP threshold. The European Economic Advisory Group (EEAG) (2011) and Christian Hellwig and Thomas Philippon (2011) discuss similar structures. All are designed to reduce the costs paid by weaker countries to borrow up to a pre-defined limit and, in so doing, provide a stronger incentive for their governments to self-regulate their deficits and debt. While widely discussed, none of these proposals have gained lasting traction, though they could be revisited in future stages of euro-zone reform.

Reform of the Model European CAC

Members of the euro zone agreed in 2012 (European Council 2012) that from 2013 onward all sovereign debt issued by member countries under their domestic law would include a double-limbed CAC whose activation requires agreement by a super majority both within a single bond series and across all eligible bond series. This is broadly consistent with the second option under the ICMA model template (see Box 5), the most difficult of the three CAC choices to activate. Euro-zone members could revise their euro CAC to incorporate the two other options endorsed by ICMA and the IMF, as well as the common threshold they propose for acceleration and their delimited version of *pari passu*. Most European stakeholders do not, however, expect the euro CAC to be revisited before 2016.

Condition ESM Support on Automatic Debt Restructuring Criteria

European stakeholders consulted generally view any attempts to reopen key features of the ESM as premature. There is little support for the CIEPR proposition (2013) that some forms of ESM financial support be made contingent on a presumption of automatic debt restructuring when debt-GDP ratios exceed pre-determined thresholds. Nevertheless, those seeking greater private-sector bail-in during restructurings may wish to return to this issue in the future as changing the ESM's lending conditions may be easier to effect than changes to the IMF's facilities and conditionality.

Return to the Euro SDRM–Deauville Private Sector Involvement Proposal

Following their summit in 2011, German chancellor Angela Merkel and French president Nicolas Sarkozy called for the creation of a European SDRM (Gianviti et al. 2010; Weder di Mauro and Zettelmeyer 2010) to ensure greater private sector involvement in debt workouts and more constrained official sector involvement. In the days following that announcement, Merkel and Sarkozy quickly backed away from this proposal and shifted their support to implementation of an agreement on a template for the European CAC, mirroring the experience with the failure of the IMF's SDRM proposal in 2003 and the ensuing push to introduce CACs to New York-law sovereign debt. Across the consultations discussed in this report, support for an SDRM-style proposal remains highest in Europe compared with any of the other geographies polled. This may provide a basis for returning to Merkel and Sarkozy's proposal for a European SDRM: compared with a global SDRM, a European version focused on European debt would be comparatively easy to bring into being under European laws and institutional structures (German Council 2012; Miller and Thomas 2013).

Politically Acceptable Debt Restructuring in the Euro Zone

Pierre Paris and Charles Wyplosz's (2014) proposal is structured to deal specifically with sovereign debt overhangs in Europe. The Politically Acceptable Debt Restructuring in the Euro Zone (PADRE) plan would see each euro-zone member's debt reduced through the securitization of the member's own share of total ECB seignorage, as determined by the member's respective shareholding key in the ECB. The proposal would provide either a one-off or an on-going way to bring down debt burdens in Europe. PADRE would not, however, offer a more generalizable approach to sovereign debt restructuring outside the euro zone and it has generated little interest so far.

A TAXONOMY OF POSSIBLE NEXT STEPS

Stakeholder reactions to the proposals detailed above hinge critically on their prioritization of the seven problems identified with the current non-system of sovereign debt restructuring laid out in the third section of this report. At the extreme, those who still think "too much, too soon" remains the core problem to address are obviously inclined toward the least change possible. Those who frame the problems with sovereign debt restructuring as chaotic, disorderly, anachronistic and suboptimal are minded to push for the implementation of strong statutory frameworks for future debt workouts. Most stakeholders sit somewhere in between and see the most productive next steps as a set of incremental, pragmatic reforms for which it is possible to garner political support, with the pursuit of market-oriented improvements potentially coexisting with contemporaneous efforts to advance statutory proposals.

Many stakeholders, regardless of their preferences, agree that one thing hasn't changed since 2003: there is not yet sufficient political consensus for a statutory or treaty-based approach to sovereign debt restructuring. This is repeated in nearly every stakeholder sector and every region. There is some acknowledgement that the economic and financial case for a statutory approach may become more compelling as debt burdens continue to increase and the likely costs of delayed and complicated debt treatments rise. At present, sovereign champions of a statutory framework appear limited to those who supported the September 2014 UN resolution, none of which are the major financial centres where most external sovereign debt is currently issued. The resolution's supporters do, however, include China and several other large emerging-market issuers. It would be a mistake if those who advocate for more limited reform were to ignore this clear constituency for an international legal bankruptcy process. As global economic power shifts, China opens its capital markets further and use of the renminbi becomes progressively more internationalized, opposition to a statutory framework from London, Tokyo and New York could become progressively less relevant. In this context, even opponents of any further reform may find it in their interest to line up behind contractual, voluntary and market-oriented refinements in order to mitigate the perceived need in other quarters for even more radical statutory action.

Rather than looking at the proposals outlined in the previous section solely as a continuum from minimalist approaches to more radical undertakings, it may also be constructive to consider these options instead in terms of the restructuring costs they address and the type of endorsement they would require in order to be implemented. Coalitions of stakeholders could be gathered around reforms that improve specific parts of the restructuring process, around changes that specifically reduce the *ex ante*, *in medias res* or *ex post* costs associated with debt workouts, or those measures that can be implemented most easily through unilateral action by individual countries and in concerted coalitions of willing stakeholders. Table 4 organizes the reform proposals in the previous section according to the type of costs they address and the type of endorsement they require to be implemented. Consensus-based reforms require agreement among all relevant stakeholders for implementation; non-consensus reforms can be implemented through simple majorities or limited supermajorities of relevant stakeholders, or, even more broadly, through individual country decisions on an individual or concerted basis.

As Table 4 indicates, the reforms launched by the IMF and ICMA in 2014 are skewed toward reducing costs in the back end of the restructuring process. The 2014 reforms aim to reduce the *ex post* costs of restructuring through improvements in contractual language and they are intended to cut the *in medias res* costs of restructuring by adding the option to reprofile debt under IMF-supported programs in the hope that a more extensive restructuring can be avoided. While these are critically

Table 4: Reform Options and Implementation Requirements

	Ex ante	*In medias res*	*Ex post*
Concerted unilateralism	• Borrowing and lending codes • Better data, including balance sheets • Transparent DSAs • United States ratify 2010 IMF reforms • SDF • CSO consultation • "Vienna" Initiative redux	• State-contingent debt • Sovereign cocos • Retrofit debt contracts • WTO-style dispute mechanism	• CAC/*pari passu* reforms • Liability management operations • Immunize payment systems • Trade/investment treaties • Standing committee on contracts • Restore Champerty
Simple majorities	• Creditor committees • Engagement clauses	• UN framework • Resolvency chamber	
Consensus driven	• FCL/PLL revisions • Debt registry • Deeper surveillance • IMF short-term facility • Automatic restructuring • End systemic waiver • PADRE, Blue Bonds, ES-Bies	• Expanded Paris Club • International Chapter 9 framework • SDRM redux • Fair and Transparent Arbitration Process • Broaden LIA policy • IMF advisory council • Private DIP financing • ESM enhancements	• Improve euro CACs • Reform ISDA determinations committee
Legend	• Minimalist	• Deep	• Concurrent

Source: Authors.

important changes, they provide only limited incentives to nudge debtor sovereigns away from "too little, too late." As Table 4 shows, even a basic reform agenda could produce substantial gains by reducing all three types of costs through actions that can be initiated by individual stakeholders.

The November 2014 G20 leaders' communiqué (G20 2014) welcomed progress made in 2014 "to strengthen the orderliness and predictability of the sovereign debt restructuring process" and called for the international community and private sector "to promote actively the use of the strengthened CAC and *pari passu* clauses." If orderliness and predictability are what the G20 seeks, then more needs to be done to make both qualities greater hallmarks of sovereign debt restructuring. The remainder of this section lays out some approaches for doing so, keyed to varying appetites for reform.

"STEADY AS SHE GOES": MINIMAL ACTION NEEDED

While most stakeholders accept the diagnosis of the seven sets of problems articulated in the third section of this report, not all agree that these problems merit a call to action. For varied reasons, a wide range of stakeholders are wary of any significant changes to the current non-system. Emerging-market debt issuers and authorities in financial centres have quickly embraced the new 2014 CAC and *pari passu* language, but they are reluctant to undertake other reforms that might increase the costs of borrowing, reduce liquidity in markets or complicate issuance. Market buy-side and sell-side stakeholders are similarly concerned with avoiding changes that will crimp their discretion, inhibit secondary markets or reduce the returns from their involvement in sovereign debt underwriting, trading and workouts. They tend to underscore that the delays involved in "too late" come from the debtor: that once a restructuring is contemplated creditors tend to organize themselves quickly and that holdouts from restructurings are relatively rare. They are, however, generally minded to endorse limited, well-vetted additional reforms that increase predictability and stability without at the same time hindering their range of action. In this, they are broadly aligned with the consensus sentiments of the G20.

A sizable group of creditor, market-based and legal stakeholders in both Europe and North America are opposed to the revisionist "too little, too late" line of the IMF. They remain set against efforts to reduce the costs of restructuring at any stage, out of a concern that an attempt to do so would reduce the incentive for sovereigns to honour their obligations. A subset of these stakeholders would like to see IMF lending and the potential moral hazard associated with it severely limited. Some of these stakeholders emphasize the sanctity of contracts and see any move to tip the balance of power in restructurings further toward debtors and away from creditors as inherently deleterious to the future of securitized lending.

A minimalist approach to reform augurs for initiatives that can be undertaken through concerted unilateralism — individual action by stakeholders — rather than negotiated treaties or unified legislative action, or through bodies, such as the IMF, that even though they technically require only simple majorities for some policy changes, by convention they generally insist on consensus for many decisions.

This approach could usefully begin with prevention, and this could start with endorsement of a common and symmetric set of principles for lending and borrowing by stakeholders on both sides of the creditor-debtor spectrum. A core set of standards would provide a useful benchmark against which to calibrate future financing decisions and would help pre-empt the development of vulnerabilities. Better prevention also requires better data, and the IMF, working with its member countries, could take a lead in collecting and disseminating this data. Depending on the type of data collected and published, this move could be accomplished through a basic management decision or, if necessary, an endorsement by a simple majority of the IMF executive board. A straightforward management decision would also suffice to make individual country DSA data transparently available, though this would remain subject to possible censorship by that country's executive director. Inclusion of analyses of cross-sectoral balance-sheet vulnerabilities in Article IV reports could also be implemented through a management decision. If implemented, all of these IMF management decisions would have resource implications for an already stretched IMF staff, and executive board support would be needed for relevant budget allocations. Simple majorities of the IMF board would also be required to make the FCL and PLL more effective crisis prevention tools by changing their qualification processes and increasing the amounts available on activation; in practice, however, a consensus would likely have to be sought on such changes because of their implications for the IMF balance sheet. In short, this entire suite of preventive measures should be feasible under existing circumstances even if no greater consensus around the need for substantial reform emerges.

The IMF and individual debtor countries could take an additional step to reduce the *ex ante* costs of restructuring by, in the IMF's case, endorsing the inclusion of ICMA's model transparency, engagement and creditor-committee clauses in sovereign bonds and, in the case of debtors, moving to write these clauses into future bond contracts. This would be a minor concession to creditors following the 2014 CAC and *pari passu* changes. Adoption of these clauses would remain at the discretion of any individual debt issuer, but their broad endorsement by the IMF could generate support for other reforms.

Basic approaches to reduce both the *ex ante* and the *in medias res* costs of restructuring and to enhance the legitimacy of debt workouts could focus on efforts to bring more creditors into both official and informal restructuring processes. Enhanced work to engage emerging official and private creditors in the Paris Club, a G20 committee or the BIS on an earlier and ongoing basis in debt restructurings could be a basic place to start, but this effort is likely to be more successful under the rubric of a new, independent SDF.

While the CAC and *pari passu* language agreed in 2014 is already a first step in reducing the *ex post* costs of restructuring, it would be equally straightforward to ensure that future bonds be written to exclude such debt from litigation and attachment through payment systems, investment treaties and trade treaties. Similarly, the United Kingdom and the United States (New York) could unilaterally pass legislation to immunize their payment systems from holdout creditor attachment. Revising multilateral and bilateral investment and trade treaties to prevent use of their dispute settlement features by holdout bondholders in pursuit of sovereign debtors would potentially be more onerous. Yet, since there is almost universal agreement that these pacts should not be hijacked for these purposes, agreement on amendments to them might be straightforward with sufficient commitment by a few sovereigns.

Sovereigns could also move to undertake debt swaps to replace their outstanding bonds with paper that includes the agreed 2014 CAC and *pari passu* language, as well as the aforementioned prohibitions on the use of payment systems, investment treaties and trade treaties to seek payment on these bonds. Undertaken as a concerted group, perhaps with support from the IMF and facilitation by the G20, any stigma attached to such operations would be mitigated and this improved contractual language would become effective at least a decade earlier than would be the case through organic rollovers on maturity.

Finally, an informal decision to make permanent the process that led to the 2014 ICMA contractual template would be non-binding, would facilitate continued reform and would ensure that the world is ready for the next innovation in bond-related litigation.

DEEP AND FUNDAMENTAL REFORM NEEDED

Another set of stakeholders concentrated in academia, CSOs, some emerging markets and developing countries take the extreme opposite view: the problems with the current non-system of sovereign debt restructuring (outlined in the third section of this report) have produced such profoundly sub-optimal results (at least in the stakeholders' estimation) that substantial action must be taken to reform how debt workouts are done before mounting debt stocks present even greater challenges. These stakeholders are particularly focused on and motivated by their perception of the status quo as dangerously disorderly, costly in its haphazard execution and unfair in its distribution of the costs of restructuring. They may welcome contractual reforms to CACs and *pari passu*, but tend to view these innovations as inadequate, inherently vulnerable to subordination by legal innovation and possibly a distraction from more fundamental reform. They view these innovations as second-best alternatives to the creation of a statutory framework under international law. Following *NML Capital, Ltd v. Argentina* (2013) and Judge Griesa's novel interpretation of *pari passu* to include ratable payments, they place a priority on tipping the balance of power in debt restructuring more firmly in the direction of debtors and away from creditors, with a particular concern to blunt what they see as the strengthened position of holdout and "vulture" creditors. They approach the reform process as an opportunity to clean the slate and start afresh. They are generally fervent supporters of the September 2014 UN resolution for work on a sovereign debt restructuring framework, even if they differ on how this statement of intent should be executed. They posit reform of sovereign debt restructuring processes as part of a broader reconfiguration of the international financial system. Apart from some IMF and SDRM veterans, few stakeholders in this camp would prefer to see a new statutory sovereign bankruptcy process located at the Fund. Indeed, among them, some CSOs want to avoid even a basic dialogue with the IMF in an effort to pre-empt the perception that they are legitimizing a role for the Fund in the restructuring process.

In the main, proponents of deep and fundamental reform of sovereign debt restructuring through legal means are focused on the creation of an international version of the US Chapter 9 insolvency process for sovereigns. Such a fully fledged sovereign bankruptcy court would go beyond the "super CAC" provided by the SDRM, which would have required a sizable plurality of creditor support for activation, to allow a unilateral move to restructuring at the request of the debtor sovereign. As such, this is a much more ambitious goal than an SDRM and would be substantially more difficult to bring about. Even a statutory arbitration or mediation process would be less likely to elicit broad support than the final 2003 SDRM proposal, unless activation of arbitration or mediation processes were made contingent on a combination of debtor consent and a sign-off by a plurality of creditors. Absent an endorsement by the world's major financial centres for one of the statutory proposals outlined above, the UN process could still produce a transformative result if there is a concerted effort by emerging markets to move their debt issuance to a country that is party to whatever international framework is agreed at the UN.

Many academic and CSO proponents of a statutory framework also see substantial merit in creating an international registry to track issuance and holdings of sovereign debt with a view to creating early warning systems to identify vulnerabilities and smooth the organization of restructurings when they are required. Such a registry would, however, undermine the anonymous feature of bearer bonds that is central to their to appeal to many creditors. A move to create a registry that is more comprehensive than the Financial Stability Board's single identifier system would likely face stiff opposition from market participants and sovereigns.

CONCURRENT TRACKS OF REFORM

There is no fundamental need to choose between decentralized, contractual and voluntary pathways to reform and more ambitious statutory or treaty-based debt restructuring technologies. Both tracks can be pursued concurrently and they could prove to be mutually supportive. In pursuing both paths, no stakeholder gives up its individual leverage to withhold support from processes that end up deviating from their preferences. As many stakeholders point out, the current non-system is not a vindication of a minimalist, market-based approach, but neither do its deficiencies wholly demonstrate the need for a more ambitious framework formalized in international law. The 2012 Greek restructuring, for instance, showed that creditors could organize themselves quickly in even a complex and costly restructuring, but the successful completion of the restructuring also relied heavily on statutory action to retrofit CACs to Greek domestic-law bonds. Making restructuring more effective and efficient requires both voluntary, market-based action and some hard-law reforms. Moreover, opposition to the UN process on a statutory restructuring framework won't shut it down any more than advocates of a statutory approach can prevent coalitions of the willing from unilaterally adopting changes advocated under the minimalist approach outlined above. There is sufficient bandwidth in the international system for both reform tracks to coexist.

Between minimalist, voluntary reforms and the pursuit of a statutory framework, Table 4 summarizes a few additional, useful changes to the current status quo that would either require fairly broad support to implement or could be built piecemeal, but would need fairly extensive engagement to become effective. First, the IMF could follow through on the pending portions of the work program laid out in its 2013 paper (IMF 2013a). Contractual reform has been addressed, but there is still work to do to address "too little, too late" head on, in part by making application of the EAC/EAP more predictable and equitable through, *inter alia*, the removal of the systemic waiver, to engage non-Paris Club creditors more fulsomely in the restructuring process, and to extend the breathing room provided by the LIA policy. Of these, engaging new creditors more comprehensively is the easiest item on which real progress could be made through informal channels. Neither expanding the Paris Club nor fusing the Paris Club and London Club, as has been mooted, look likely to produce wider stakeholder engagement and inclusivity. Movement instead toward the creation of an independent SDF, perhaps under the initial sponsorship of the G20 or another multilateral body, holds greater promise. Revisions to the constraints on IMF lending and the LIA policy are sufficiently contentious and would require enough IMF members to vote against their short-term self-interest that they would likely need a full consensus of the Fund's executive board to proceed. As argued above, it would be difficult to remove the systemic waiver until both the euro zone has fully stabilized and the IMF's quota increase has been approved. Some stakeholders caution further that binding the hands of the IMF without a legal restructuring framework in place that provides for a payments standstill during crises would be irresponsible and possibly unstable. Engineering greater predictability in IMF lending through the addition of a tribunal or council of wise persons to provide review and oversight on IMF analysis seems similarly impossible until the 2010 IMF reform package is ratified.

Complementary proposals, such as sovereign cocos and other forms of state-contingent debt, which would provide sovereigns with automatic standstills during crises, and the SDF, which would make it easier and more effective to initiate debt discussions between sovereigns and their creditors, are receiving positive hearings, although they need some prominent stakeholders to advocate forcefully for their implementation. In line with the introduction of CACs in New York-law bonds in 2003 and the adoption of the new template in 2014, sovereign cocos need a well-respected country to begin issuing them in sufficient size and liquidity to drive their wider acceptance. Similarly, the SDF or similar soft-law alternatives to creating a more inclusive and proactive venue for the treatment of distressed sovereign debt need a small group of stakeholders, including a few major sovereigns, to move ahead with their implementation in order to prove that these innovations can dampen the inhibitions that lead to "too late" and improve the quality of debtor-creditor interactions such that "too little" is also addressed.

Higher-quality sovereign creditors could also begin writing provisions for arbitration or mediation into their bond contracts for the possible event of a restructuring; this would help create the space for emerging and frontier sovereigns to follow their lead. Similarly, financial centres may also look into working with like-minded sovereigns to begin retrofitting CACs into the sovereign paper of countries that have issued foreign-law bonds in their jurisdictions.

Europe could at the same time pursue some of the proposals summarized in Table 4 to streamline its technologies for dealing with sovereign debt distress. Among these, the lowest-hanging fruit would be to revise the model euro CAC to include the additional single-limbed options for activation endorsed by ICMA (2014). Implementation of Blue Bonds, ES-Bies or PADRE could also provide an avenue to finance Greece within the euro zone's existing policy and political constraints.

Work could continue on refining proposals to make automatic debt restructuring a precursor to IMF or ESM lending. There are still no alternative, workable proposals in circulation for a practical way to improve the EAC/EAP and limit the possible moral hazard and excessive official sector involvement attached to public DIP financing from the two institutions. Deeper surveillance and an IMF short-term lending facility could, however, reduce the perceived need for such automaticity. Similarly, efforts to widen the application of the Champerty doctrine in New York (or elsewhere) may reduce the *ex post* costs associated with restructurings if a more expansive Champerty doctrine can be made consistent with the rights and protections for creditors needed to ensure the continued smooth liquidity and operation of bearer-bond markets. This looks like a very challenging task.

CONCLUSIONS

In an April 2014 speech to the Canadian International Council, former US Treasury Secretary Lawrence Summers noted that there are two broad approaches to reform in any domain of public policy: one can either look for a lowest common denominator, find a path that engenders the least opposition and follow it; or one can focus on a few essential things that have passionate advocates and pursue them (Summers 2014b). If anything, the consultations and stakeholder views addressed in this report imply that reforming the current non-system of sovereign debt restructuring does not present quite such an "either/or" proposition.

Rather than shunning modest steps as paltry attempts to satisfice, stakeholders could embrace them as achievements in their own right, as well as confidence-building efforts on the way to the possibility of more substantial reform. The notion that improving sovereign debt restructuring inevitably involves a binary choice between contractual, market or voluntary approaches and hard-law statutory frameworks is dated and doesn't reflect the diversity of reform options and their supporters reviewed in this report. While the global capacity for change is sometimes limited, progress could proceed on multiple tracks at the same time and would be more likely to be successful as a result. The need to improve the tools we use to deal with sovereign debt crises is made particularly urgent by the likelihood that both advanced and emerging-market sovereigns could face liquidity and solvency problems in the years ahead.

Stakeholders interested in further reform can position themselves now to support combinations of the proposals outlined here that are mutually consistent, that can advance through the actions of willing parties and that create the conditions for further improvements. Refinement of a non-system as important and at the same time nebulous as the global approach to sovereign debt restructuring requires continual discussion and compromise. Complementarities among individual efforts will likely become clearer and more profound as debt burdens grow more onerous and vulnerable. Stakeholders should see this as a multi-stage process rather than a singular effort building toward a big-bang, one-off set of innovations. This past year demonstrates that progress is possible. Now, the momentum generated in 2014 needs to be sustained to get future sovereign debt restructurings to be just enough and just in time.

ANNEX

SDF CONSULTATIONS 2012–2014

No.	Meeting	Venue	Dates
1	CIGI-INET Conference "Sovereign Debtors in Distress"	CIGI Waterloo, Canada	February 24–26, 2012
2	UN Experts Group Meeting	UN Secretariat New York, USA	May 18, 2012
3	UN Experts Group Meeting	Commonwealth Secretariat London, UK	September 19, 2012
4	UN Experts Group Panel	IMF/World Bank Annual Meetings Tokyo, Japan	October 12, 2012
5	Meetings and Policy Seminar, Dept of Finance and Bank of Canada	Bank of Canada Ottawa, Canada	January 8–10, 2013
6	International Department Meetings	US Treasury Washington, DC	January 23, 2013
7	Emerging Markets Policy Department Meetings	IIF HQ Washington, DC	January 23, 2013
8	IMF Interdepartmental Seminar	IMF HQ Washington, DC	January 24, 2013
9	Executive Board Seminar, Inter-American Development Bank	Inter-American Development Bank HQ Washington, DC, USA	January 24, 2013
10	Real money, hedge fund and sell-side market participants	Various venues New York, USA	February 11–15, 2013
11	Jessup International Law Moot Court Competition	Canadian Council on International Law Kingston, Canada	March 7, 2013
12	Real money, family office and hedge fund market participants	Various venues Montreal, Canada	March 11–14, 2013
13	Real money, buy-side and sell-side market participants	Various venues Toronto, Canada	March 25–28, 2013
14	Real money market participants	Various venues Boston, USA	April 1–11, 2013
15	IMF Executive Directors	Individual meetings Washington, DC	June 5-6, 2013

No.	Meeting	Venue	Dates
16	Global Economic Governance Roundtable	University College Oxford, UK	June 17, 2013
17	Markets and Monetary Analysis Departments	Bank of England London, UK	June 21, 2013
18	International Economic Policy Department	HM Treasury London, UK	June 21, 2013
19	Sell-side market participants	Various venues New York, USA	July 2, 2013
20	Policy Roundtable	CIGI Waterloo, Canada	July 16, 2013
21	Teleconference with Australian G20 actors	Lowy Institute, Treasury Sydney and Canberra, Australia	August 7, 2013
22	European Policy Forum	Brookings Institution Washington, DC	October 10, 2013
23	Roundtable with market participants	Tabard Inn Washington, DC	October 10, 2013
24	Civil Society Policy Forum	World Bank HQ Washington, DC	October 11, 2013
25	Sovereign Debt Restructuring Roundtable Discussion	IMF HQ Washington, DC	October 12, 2013
26	Departmental Seminar	McGill University Montreal, Canada	October 15, 2013
27	Policy Meetings	Said Business School and Political Economy of Financial Markets Oxford, UK	October 20, 2013
28	Roundtable on Social Finance	Jeanne Sauvé Foundation Montreal, Canada	November 1, 2013
29	Canadian Council on International Law Annual Conference	Department of Foreign Affairs Ottawa, Canada	November 14, 2014
30	Policy Seminar	European Stability Mechanism Luxembourg City, Luxembourg	November 18, 2014
31	Seminar at the Center for the Study of African Economies	Economics Department Oxford, UK	November 19, 2013
32	International Department Seminar	ECB Frankfurt, Germany	November 20, 2014
33	Seminar	Centre d'Etudes Prospectives et d'Informations Internationales Paris, France	November 21, 2014
34	Policy Roundtable	German Marshall Fund USA Brussels, Belgium	November 22, 2014
35	Regional Meeting	Rotary Clubs, Eastern Canada Cornwall, Canada	December 14, 2014
36	Staff Meeting	International Finance Corporation HQ Washington, DC	January 14, 2014
37	Council on Foreign Relations Meeting	Council on Foreign Relations Washington, DC	January 15, 2014
38	Group of 24 Secretariat Seminar with IMF Executive Board	IMF Washington, DC, USA	January 16, 2014

No.	Meeting	Venue	Dates
39	International Department Seminar	Bank of Spain Madrid, Spain	January 20, 2014
40	Policy Seminar	Bruegel Brussels, Belgium	January 22, 2014
41	German SDF	World Economy, Ecology and Development; Bread for the World, Heinrich Böll Stiftung Berlin, Germany	January 23, 2014
42	Sell-side market participants	Investment bank Zurich, Switzerland	January 24, 2014
43	Annual Summit	World Economic Forum Davos, Switzerland	January 28,2014
44	Italian International Affairs Institute Policy Seminar	Association of Italian Banks Rome, Italy	January 28, 2014
45	Academic Forum on 2025: Of Threats and Opportunities	Canadian Security Intelligence Service Ottawa, Canada	February 28, 2014
46	Departmental Meetings	Canadian Public Service Ottawa, Canada	March 27-28, 2014
47	INET Annual Conference	CIGI and INET Toronto, Canada	April 11, 2014
48	Canadian International Council Meeting	University Club Montreal, Canada	April 16, 2014
49	UN Experts Group Meeting	Bank of England London, UK	April 25, 2014
50	Salzburg Global Seminar	Schloss Leopolskron Salzburg, Austria	April 30, 2014
51	Ottawa Forum	University of Ottawa Ottawa, Canada	May 23-24, 2014
52	Annual Conference	Responsible Investment Association Toronto, Canada	May 26–28, 2014
53	Buy- and sell-side market participants	Various venues New York, USA	June 10–14, 2014
54	German public institutions and academics	Various venues Berlin, Germany	June 25, 2014
55	Academic Meeting	Chinese Academy of Social Sciences-Institute of World Economics and Politics Beijing, China	July 14, 2014
56	Buy-side and sell-side market participants	Various venues Shanghai, China	July 18, 2014
57	Centre interuniversitaire de recherche en économie quantitative (seminar)	McGill University Montreal, Canada	July 22, 2014
58	Inter-American Development Bank Executive Board Seminar	IDB Washington, DC	September 9, 2014
59	"Summer Davos"	World Economic Forum Tianjin, China	September 11, 2014
60	IMF-World Bank Annual Meetings	Various venues Washington, DC	October 6–11, 2014
61	Festivus Social Sciences Festival	Vanier College Montreal, Canada	October 22, 2014

No.	Meeting	Venue	Dates
62	Canadian Council on International Law Annual Conference	Department of Foreign Affairs, Trade and Development Ottawa, Canada	November 14, 2014
63	Frameworks for Sovereign Debt Restructuring Conference	Initiative for Policy Dialogue, Columbia University New York, USA	November 17, 2014
64	Financing for Development Meeting	UN Secretariat New York, USA	9 December 9, 2014

WORKS CITED

Barkbu, Bergljot, Barry Eichengreen and Ashoka Mody. 2012. "Financial Crises and the Multilateral Response: What the Historical Record Shows." *Journal of International Economics* 88 (2): 422–35.

Becker, Torbjörn, Anthony J. Richards and Yunyong Thaicharoen. 2003. "Bond Restructuring and Moral Hazard: Are Collective Action Clauses Costly?" *Journal of International Economics* 61 (1): 127–61.

Bederman, David. 1988. "The Bank for International Settlements and the Debt Crisis: A New Role for the Central Bankers' Bank." *International Tax and Business Law* 92. http://scholarship.law.berkeley.edu/bjil/vol6/iss1/5.

BIS. 2014a. *BIS Quarterly Review*. March. Basel: BIS. www.bis.org/publ/qtrpdf/r_qt1403.pdf.

———. 2014b. *BIS Quarterly Review*. December. Basel: BIS. www.bis.org/publ/qtrpdf/r_qt1412.pdf.

———. 2015. *BIS Quarterly Review*. March. Basel: BIS. www.bis.org/publ/qtrpdf/r_qt1412.pdf.

Bloomberg L.P. 2015a. "Rate Cuts or Accomodative Policy Action by Central Banks." Bloomberg database.

———. 2015b. "Sub-Saharan African Eurobond Issuance." Bloomberg database.

Blustein, Paul. 2015. *Over Their Heads: The IMF and the Prelude to the Euro-Zone Crisis*. CIGI Papers No. 60. Waterloo, ON: CIGI.

Boorman, Jack. 2006. "Dealing Comprehensively, and Justly, with Sovereign Debt." In *Sovereign Debt at the Crossroads: Challenges and Proposals for Resolving the Third World Debt Crisis*, edited by Chris Jochnick and Fraser A. Preston. New York, NY: Oxford University Press.

Borensztein, Eduardo and Paolo Mauro. 2004. "The Case for GDP-indexed Bonds." *Economic Policy* 19 (38): 166–216.

Borensztein, Eduardo and Ugo Panizza. 2009. "The Costs of Sovereign Default." *IMF Staff Papers* 56 (4): 683–741.

Bradley, Michael and Mitu Gulati. 2012. "Collective Action Clauses for the Eurozone: An Empirical Analysis." Working Paper. http://ssrn.com/abstract=1948534.

Brooke, Martin, Rhys Mendes, Alex Pienkowski and Eric Santor. 2013. "Sovereign Default and State-Contingent Debt." Bank of Canada Discussion Paper 2013-3. Ottawa: Bank of Canada.

Brooks, Skylar and Domenico Lombardi. 2014. "Sovereign Debt Restructuring: A Backgrounder." Unpublished paper. Washington, DC: New Rules for Global Finance.

Brooks, Skylar, Domenico Lombardi and Ezra Suruma. 2014. *African Perspectives on Sovereign Debt Restructuring*. CIGI Papers No. 43. Waterloo, ON: CIGI.

Broomfield, Elizabeth and Lee C. Buchheit. 2013. "Sovereign Debt Adjustment Program." Unpublished paper.

Brunnermeir, Markus K., Luis Garicano, Philip R. Lane, Marco Pagano, Ricardo Reis, Tano Santos, Stijn Van Nieuwerburgh and Dimitri Vayanos. 2011. "European Safe Bonds: ES-Bies." Unpublished paper. http: //euro-nomics.com.

Buchheit, Lee C., Mitu Gulati and Ignacio Tirado. 2012. "The Problem of Holdout Creditors in Eurozone Sovereign Debt Restructurings." Working Paper. http://ssrn.com/abstract=2205704.

Bulow, Jeremy and Kenneth Rogoff. 1989. "Sovereign Debt: Is to Forgive to Forget?" *American Economic Review* 79 (1): 43–50.

Bundy Smith, George and Thomas J. Hall. 2012. "The Narrow Application of the Champerty Doctrine." *New York Law Journal* 248 (77): 1-2.

Capurso, Joseph. 2014. "Fixed Income: Weekly Strategy." *Global Markets Research*. February. Sydney: Commonwealth Bank.

Chung, Kyuil, Jong-Eun Lee, Elena Loukoianova, Hail Park and Hyun Song Shin. 2014. "Global Liquidity through the Lens of Monetary Aggregates." IMF Working Paper 14/9.

CIEPR. 2013. *Revisiting Sovereign Bankruptcy.* Washington, DC: Brookings Institution.

Cole, Harold and Timothy Kehoe. 1998. "Self-Fulfilling Debt Crises." Federal Reserve Bank of Minneapolis Research Department Staff Report 211. Minneapolis: FRBM.

Coplin, Nathan. 2015. "Challenges in Restructuring Sovereign Debt: Do we need 'Creditor Engagement Clauses'?" *New Rules* (blog), March 9. www.new-rules.org/new-rules-blog/614-challenges-in-restructuring-sovereign-debt-do-we-need-creditor-engagement-clauses.

Cruces, Juan and Christoph Trebesch. 2013. "Sovereign Defaults: The Price of Haircuts." *American Economic Journal: Macroeconomics* 5 (3): 85–117.

Das, Udaibir, Michael Papaioannou and Christoph Trebesch. 2012. "Sovereign Debt Restructurings 1950–2010: Literature Survey, Data and Stylized Facts." IMF Working Paper 12/203.

Dell'Erba, Salvatore, Ricardo Hausmann and Ugo Panizza. 2013. "Debt Levels, Debt Composition, and Sovereign Spreads in Emerging and Advanced Economies." Working Paper No. 263. Cambridge, MA: John F. Kennedy School of Government, Harvard University.

DeSieno, Timothy. 2014. "Creditor Committees in Sovereign Debt Restructurings: Understanding the Benefits and Addressing Concerns." www.un.org/esa/ffd////wp-content/uploads/2014/12/9Dec14-BS-statement.pdf.

Dobbs, Richard, Susan Lund, Jonathan Woetzel and Mina Mutafchieva. 2015. "Debt and (not much) deleveraging." February. Washington, DC: McKinsey Global Institute. www.mckinsey.com/insights/economic_studies/debt_and_not_much_deleveraging.

Dooley, Michael P. 2000. "Can Output Losses Following International Financial Crises Be Avoided?" National Bureau of Economic Research Working Paper 7531.

Draghi, Mario. 2012. "Speech by Mario Draghi, President of the European Central Bank, at the Global Investment Conference." July 26. London. www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html.

Drezner, Daniel. 2014. *The System Worked: How the World Stopped Another Great Depression*. Oxford, UK: Oxford University Press.

Eaton, Jonathan and Mark Gersovitz. 1981. "Debt with Potential Repudiation: Theoretical and Empirical Analysis." *Review of Economic Studies* 48 (2): 289–309.

EEAG. 2011. "A New Crisis Mechanism for the Euro Area." *The EEAG Report on the European Economy* 2: 71–96. Munich: CESifo.

Eichengreen, Barry and Poonam Gupta. 2013. "Tapering Talk: The Impact of Expectations of Reduced Federal Reserve Security Purchases on Emerging Markets." Berkeley, CA: University of California (Berkeley). http://eml.berkeley.edu/~eichengr/tapering_talk_12-16-13.pdf.

Eichengreen, Barry, Ricardo Hausmann and Ugo Panizza. 2002. "Original Sin: The Pain, the Mystery and the Road to Redemption." Paper presented at an Inter-American Development Bank conference, Currency and Maturity Matchmaking: Redeeming Debt from Original Sin, Washington, DC, November 21-22.

———. 2007. "Currency Mismatches, Debt Intolerance and Original Sin: Why They Are Not the Same and Why it Matters." National Bureau of Economic Research Working Papers 10036.

Eichengreen, Barry and Ugo Panizza. 2014. "A Surplus of Ambition: Can Europe Rely on Large Primary Surpluses to Solve its Debt Problem?" National Bureau of Economic Research Working Papers 20316.

English, Kevin and Brett House. 2014. "Why Canada needs to push for a truly multilateral financial system." *The Globe and Mail,* June 30. www.theglobeandmail.com/report-on-business/why-canada-needs-to-push-for-a-truly-multilateral-financial-system/article19380210/#dashboard/follows/.

European Council Economic and Financial Committee's Sub-Committee on EU Sovereign Debt Markets. 2012. "Standardized and Identical Collective Action Clause." Common Terms of Reference and Supplemental Provisions. February. Brussels: European Council. http://europa.eu/efc/sub_committee/cac/cac_2012/index_en.htm.

Fekete, Jason and Lee Berthiaume. 2012. "Tories once again reject calls to bail out eurozone as Merkel arrives for meeting with Harper." *National Post*, August 16. http://news.nationalpost.com/news/canada/tories-once-again-reject-calls-to-bail-out-eurozone-as-merkel-arrives-for-meeting-with-harper.

Frydl, Edward and Marc Quintyn. 2000. "The Benefits and Costs of Intervening in Banking Crises." IMF Working Paper 00/147.

G10. 1996. *The Resolution of Sovereign Liquidity Crises.* Report to the Ministers and Governors prepared under the auspices of the Deputies. May. Basel: BIS. www.bis.org/publ/gten03.pdf.

G20. 2014. "G20 Leaders' Communiqué." November 16. www.g20.utoronto.ca/2014/2014-1116-communique.html.

Gelpern, Anna. 2014. "A Sensible Step to Mitigate Sovereign Bond Dysfunction." *RealTime Economic Issues Watch* (blog), August 29. http://blogs.piie.com/realtime/?p=4485.

———. 2015. "Fifty Lashes and Hobson's Choice, Argentina Edition." *Credit Slips* (blog), March 15. www.creditslips.org/creditslips/2015/03/its-me-or-her-argentina-edition.html.

German Council of Economic Experts. 2012. *After the Euro Area Summit: Time to Implement Long-term Solutions.* Special report. Wiesbaden: German Council of Economic Experts.

Gennaioli, Nicola, Alberto Martin and Stefano Rossi. 2014. "Sovereign default, domestic banks and financial institutions." *Journal of Finance* 69 (2): 819–66.

Gianviti, François, Jürgen von Hagen, Anne O. Krueger, Jean Pisani-Ferry and André Sapir. 2010. "A European Mechanism for Sovereign Debt Crisis Resolution: A Proposal." Brussels: Bruegel.

Gitlin, Richard and Brett House. 2013. "The Sovereign Debt Forum: Expanding Our Tool Kit for Handling Sovereign Crises." CIGI Policy Briefs No. 28. Waterloo, ON: CIGI.

———. 2014a. *A Blueprint for a Sovereign Debt Forum*. CIGI Papers No. 27. Waterloo, ON: CIGI.

———. 2014b. "Further Reform of Sovereign Debt Restructuring: An Agenda for 2015." CIGI Policy Briefs No. 54. Waterloo, ON: CIGI.

Government of Belgium. 2004. "Law of 19 November, 2004 Amending the Law of 28 April, 1999 to Transpose the Directive 98/26/EC of 19 May, 1998 on Settlement Finality in Payment Systems and Settlement of Securities Transactions." *Official Gazette of Belgium*, December 28.

Government of Scotland. 2013. "Scotland's Future." Government of Scotland White Paper. November. Edinburgh: Government of Scotland.

Government of the United Kingdom. 2011. "Government Acts to Halt Profiteering on Third World Debt within the UK." Government of the United Kingdom press release, May 16. www.gov.uk/government/news/government-acts-to-halt-profiteering-on-third-world-debt-within-the-uk.

Griffin, Starla. 2015. "GDP-linked bonds: lessons from Greece." *International Financial Law Review*, March 24. www.iflr.com/Article/3435103/IFLR-magazine/GDP-linked-bonds-lessons-from-Greece.html.

Grossman, Herschel and John B. Van Huyck. 1988. "Sovereign Debt as a Contingent Claim: Excusable Default, Repudiation, and Reputation." *American Economic Review* 78 (5): 1088–97.

Guzman, Martin and Joseph Stiglitz. 2014. "Debeaking the Vultures." *Project Syndicate*, October 1. www.project-syndicate.org/commentary/joseph-e--stiglitz-and-martin-guzman-on-the-efforts-to-remove-new-legal-obstacles-to-sovereign-debt-restructuring-2014-10.

Haldane, Andrew and Mark Kruger. 2001. "The Resolution of International Financial Crises: Private Finance and Public Funds." *Bank of Canada Review*, Winter 2001/02.

Haley, James. 2014. *Sovereign Debt Restructuring: Old Debates, New Challenges*. CIGI Papers No. 32. Waterloo, ON: CIGI.

Helleiner, Eric. 2008. "The Mystery of the Missing Sovereign Debt Restructuring Mechanism." *Contributions to Political Economy* 27 (1): 91–113.

Hellwig, Christian and Thomas Philippon. 2011. "Eurobills not Eurobonds." VoxEU, December 2. Geneva: CEPR. www.voxeu.org/article/eurobills-not-euro-bonds.

House, Brett. 2015. "It's the US that has the most to lose if Congress keeps blocking IMF reform." *Quartz*, February 11. http://qz.com/342144/its-the-us-that-has-the-most-to-lose-if-congress-keeps-blocking-imf-reform/.

House, Brett, Hongying Wang and Miranda Xafa. 2014. "Chinese Perspectives on Sovereign Debt Restructuring." CIGI Commentaries, July 22. Waterloo, ON: CIGI.

Hubbard, Glenn. 2003. "Enhancing Sovereign Debt Restructuring." Remarks to the Conference on the Sovereign Debt Restructuring Mechanism at the IMF, Washington, DC, January 22. www0.gsb.columbia.edu/faculty/ghubbard/speeches/1.22.03.pdf.

ICMA. 2014. "Standard Collective Action and *Pari Passu* Clauses for the Terms and Conditions of Sovereign Notes." August. London: ICMA. www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Primary-Markets/collective-action/.

IIF. 2012. *Principles for Stable Capital Flows and Fair Debt Restructuring.* Report and addendum. Washington, DC: IIF Joint Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution. www.iif.com/topics/principles-stable-capital-flows-and-fair-debt-restructuring.

———. 2015. "Capital Flows to Emerging Market Economies." IIF Research Note, January 14. Washington, DC: IIF.

IMF. 2002. "Access Policy in Capital Account Crises." IMF Board Paper. July. Washington, DC: IMF. www.imf.org/external/np/tre/access/2003/pdf/072902.pdf.

———. 2003. "Report of the Managing Director to the International Monetary and Financial Committee on a Statutory Sovereign Debt Restructuring Mechanism." April. Washington, DC: IMF. www.imf.org/external/np/omd/2003/040803.htm.

———. 2006. "Cross-Country Experience with Restructuring of Sovereign Debt and Restoring Debt Sustainability." IMF Board Paper. August. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2006/082906.pdf.

———. 2009. "GRA Lending Toolkit and Conditionality: Reform Proposals." IMF Board Paper. March. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2009/031309a.pdf.

———. 2010. "Greece: Staff Report on Request for Stand-by Arrangement." IMF Board Paper. May. Washington, DC: IMF. www.imf.org/external/pubs/cat/longres.aspx?sk=23839.0.

———. 20011a. "Recent Experiences in Managing Capital Inflows: Cross-cutting Themes and Possible Policy Framework." Statement by the Managing Director. March. Washington, DC: IMF.

———. 20011b. "The Legacy of the Crisis: How Long Will It Take to Lower Public Debt?" In *Fiscal Monitor: Addressing Fiscal Challenges to Reduce Economic Risks.* September. Washington, DC: IMF. www.imf.org/external/pubs/ft/fm/2011/02/pdf/fm1102.pdf.

———. 2012a. "The Liberalization and Management of Capital Flows: An Institutional View." IMF Board Paper. November. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2012/111412.pdf.

———. 2012b. "A Survey of Experiences with Emerging Market Sovereign Debt Restructurings." IMF Board Paper. June. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2012/060512.pdf.

———. 2012c. "The Challenge of Public Pension Reform in Advanced and Emerging Economies." IMF Board Paper. December. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2011/122811.pdf.

———. 2013a. "Sovereign Debt Restructuring: Recent Developments and Implications for the Fund's Legal and Policy Framework." IMF Board Paper. April. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2013/042613.pdf.

———. 2013b. "Debt Sustainability Analysis." November. Washington, DC: IMF. www.imf.org/external/pubs/ft/dsa/.

———. 2014a. *Fiscal Monitor: Public Expenditure Reform: Making Difficult Choices.* April. Washington, DC: IMF. www.imf.org/external/pubs/ft/fm/2014/01/pdf/fm1401.pdf.

———. 2014b. "The Fund's Lending Framework and Sovereign Debt: Preliminary Considerations." IMF Board Paper. June. Washington, DC: IMF. www.imf.org/external/np/pp/eng/2014/052214.pdf.

———. 2014c. "Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring." IMF Board Paper. October. Washington, DC: IMF. www.imf.org/external/pp/longres.aspx?id=4911.

———. 2014d. "Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment." In *World Economic Outlook: Legacies, Clouds, Uncertainties*. October. Washington, DC: IMF.

———. 2014e. "List of LIC DSAs for PRGT-Eligible Countries." December. IMF Staff. Washington, DC: IMF. www.imf.org/external/pubs/ft/dsa/dsalist.pdf.

———. 2015. "WEO Database." April. IMF Staff. Washington, DC: IMF. www.imf.org/external/data.htm.

James, Harold. 2014. "Is 2014, like 1914, a prelude to world war?" *The Globe and Mail*, July 2. www.theglobeandmail.com/globe-debate/read-and-vote-is-2014-like-1914-a-prelude-to-world-war/article19325504/.

Jeanne, Olivier and Jeromin Zettelmeyer. 2004. "The Mussa Theorem (and Other Results on IMF-Induced Moral Hazard)." IMF Working Paper 04/192.

Kahn, Robert and Gregory Makoff. 2015. *Sovereign Bond Contract Reform: Implementing the New ICMA* Pari Passu *and Collective Action Clauses.* CIGI Papers No. 56. Waterloo, ON: CIGI.

Kaiser, Jürgen. 2013. "Resolving Sovereign Debt Crises." Friedrich Ebert Stiftung Working Paper, October. www.erlassjahr.de/english/towards-an-international-insolvency-framework.html.

———. 2014. "Make a Reform Process Visible and Sustainable." Paper presented at an Institute for Policy Dialogue conference, Frameworks for Sovereign Debt Restructuring, New York, NY, November 17.

Kargman, Steven T. and Christoph Paulus. 2008. "Reforming the Process of Sovereign Debt Restructuring: A Proposal for a Sovereign Debt Tribunal." Paper presented at an UNDESA conference, Workshop on Debt, Finance and Emerging Issues in Financial Integration, New York, NY, April 8-9.

Koo, Richard. 2014. *The Escape from Balance Sheet Recession and the QE Trap: A Hazardous Road for the World Economy*. New York, NY: Wiley.

Krueger, Anne. 2001. "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring." Address to the National Economists' Club Annual Members' Dinner, Washington, DC. www.imf.org/external/np/speeches/2001/112601.htm.

Lagarde, Christine. 2015a. "Time to Act on the G-20 Agenda: The Global Economy Will Thank You." *iMFdirect* (blog). http://blog-imfdirect.imf.org/2015/02/06/time-to-act-on-the-g-20-agenda-the-global-economy-will-thank-you/.

———. 2015b. "Spillovers from Unconventional Monetary Policy: Lessons for Emerging Markets." Speech at the Reserve Bank of India, March 17. www.imf.org/external/np/speeches/2015/031715.htm.

Lastra, Rosa. 2014. "Should the IMF lending into arrears policy be revised?" Remarks presented to the UN Experts Group Meeting, Bank of England, London, April 25.

Levy Yeyati, Eduardo and Ugo Panizza. 2011. "The Elusive Costs of Sovereign Defaults." *Journal of Development Economics* 94 (1): 95–105.

Mandeng, Ousmene. 2013. "The IMF must quit the Troika to survive." *Financial Times*, April 13. www.ft.com/intl/cms/s/0/a9e49a86-a6bb-11e2-885b-00144feabdc0.html#axzz3Xnyj8x98.

Mian, Atif and Amir Sufi. 2014. *House of Debt*. Chicago: University of Chicago Press.

Miller, Marcus and Dania Thomas. 2013. "Eurozone Sovereign Debt Restructuring: Promising Legal Prospects?" CAGE Online Working Paper Series No. 43. Coventry, UK: University of Warwick.

Mishra, Prachi, Kenji Moriyama, Papa N'Diaye and Lam Nguyen. 2014. "Impact of Fed Tapering Announcements on Emerging Markets." IMF Working Paper 14/109.

Mody, Ashoka. 2013. "Sovereign debt and its restructuring framework in the euro area." Bruegel Working Paper No. 2013/05. www.bruegel.org/publications/publication-detail/publication/788-sovereign-debt-and-its-restructuring-framework-in-the-euro-area/.

NML Capital, Ltd v. Republic of Argentina. 727 F.3d 230, US 2d Circuit (2013).

Nordvig, Jens and David Fritz. 2014. "FX Weekly." February. London: Nomura.

Ocampo, José Antonio. 2014a. "The UN takes the first step to debt restructuring." *Financial Times, Beyondbrics* (blog). http://blogs.ft.com/beyond-brics/2014/09/10/guest-post-the-un-takes-the-first-step-to-debt-restructuring/.

———. 2014b. "Proposals for a Sovereign Debt Workout Mechanism." Speech given at the Initiative for Policy Dialogue conference, Frameworks for Sovereign Debt Restructuring, New York, NY. https://sites.google.com/site/martinmguzman/sdrconference.

OECD. 2013. "Public Spending on Health and Long-term Care: A New Set of Projections." OECD Economic Policy Papers 06. Paris: OECD.

Panizza, Ugo. 2007. "Is Domestic Debt the Answer to Debt Crises?" Initiative for Policy Dialogue, Columbia University, Working Paper Series.

Paris, Pierre and Charles Wyplosz. 2014. "PADRE: Politically Acceptable Debt Restructuring in the Eurozone." *Geneva Reports on the World Economy*, Special Report No. 3. Geneva: International Centre for Monetary and Banking Studies.

Paulus, Christoph. 2012. "A Resolvency Proceeding for Defaulting Sovereigns." *International Insolvency Law Review* (1): 1–20.

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press.

Powell, Andrew. 2011. "Bipolar Debt Restructuring: Lessons from LAC." Vox-LACEA, February 24. http://vox.lacea.org/?q=debt-lessons-LAC.

———. 2014. "Debt Restructuring." Remarks presented to the UN Experts Group Meeting, Bank of England, London, April 25.

Powell, Andrew, Guido Sandleris and Pilar Tavella. 2013. "Multiple Restructurings, Delays and Haircuts." Unpublished paper. Washington, DC: Inter-American Development Bank.

Prengaman, Peter. 2015. "Citibank in Argentina to Stop Making Bond Payments." Americas, *The New York Times*, March 17. www.nytimes.com/aponline/2015/03/17/world/americas/ap-lt-argentina-debt-standoff.html.

Rachman, Gideon. 2015. "China's money magnet pulls in US allies." *Financial Times*, March 16. www.ft.com/intl/cms/s/0/cd466ddc-cbc7-11e4-aeb5-00144feab7de.html?o=os&siteedition=intl#axzz3UShcNxCI.

Raffer, Kunibert. 1990. "Applying Chapter 9 Insolvency to International Debts: An Economically Efficient Solution with a Human Face." *World Development* 18 (2): 301–13.

———. 2003. "The Present State of the Discussion on Restructuring Sovereign Debts: Which Specific Sovereign Insolvency Procedure?" In *Proceedings of the Fourth Inter-Regional Debt Management Conference and WADMO Conference*, 69–74. Geneva and New York: United Nations.

———. 2014. "Proposals for a multilateral legal framework for sovereign debt restructuring." Paper presented at an Initiatives for Policy Dialogue conference, Frameworks for Sovereign Debt Restructuring, New York. https://sites.google.com/site/martinmguzman/sdrconference.

Rajan, Raghuram. 2014. "Competitive Monetary Easing: Is it yesterday once more?" Remarks at the Brookings Institution, April 10. https://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=886.

Reinhart, Carmen and Kenneth Rogoff. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton University Press.

———. 2011. "From Financial Crash to Debt Crisis." *American Economic Review* 101 (5): 1676–1706.

———. 2013. "Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten." IMF Working Paper 13/266.

Reinhart, C., V. Reinhart and K. Rogoff. 2012. "Public Debt Overhangs: Advanced-Economy Episodes since 1800." *Journal of Economic Perspectives* 26 (3): 69–86.

Rieffel, Lex. 2003. *Restructuring Sovereign Debt: The Case for Ad Hoc Machinery.* Washington, DC: Brookings Institution.

Rogoff, Kenneth and Jeromin Zettelmeyer. 2002. "Bankruptcy Procedures for Sovereigns: A History of Ideas, 1976–2001." *IMF Staff Papers* 49 (3): 470–507.

Rosenberg, Christoph, Ioannis Halikias, Brett House, Christian Keller, Jens Nystedt, Alexander Pitt and Brad Setser. 2005. "Debt-Related Vulnerabilities and Financial Crises. An Application of the Balance Sheet Approach to Emerging Market Countries." IMF Occasional Paper 240. Washington, DC: IMF.

St. John, Taylor and Ngaire Woods. 2014. "Ukraine Versus the Vultures." March 17. Project Syndicate. www.project-syndicate.org/commentary/ngaire-woods-and-taylor-st--john-warn-that-the-country-s-investment-treaties-could-undermine-debt-restructuring-efforts.

Sandleris, Guido. 2008. "Sovereign Defaults: Information, Investment and Credit." *Journal of International Economics* 76 (2): 267–75.

———. 2012. "The Costs of Sovereign Defaults: Theory and Empirical Evidence." Business School of the Universidad Torcuato Di Tella Working Paper 2012-02.

Schadler, Susan. 2012. *Sovereign Debt Distress: Are Our Institutions up to the Challenge?* CIGI Papers No. 6. Waterloo, ON: CIGI.

———. 2013. *Unsustainable Debt and the Political Economy of Lending: Constraining the IMF's Role in Sovereign Debt Crises*. CIGI Papers No. 19. Waterloo, ON: CIGI.

———. 2014. "The IMF's Preferred Creditor Status: Does It Still Make Sense after the Euro Crisis?" CIGI Policy Briefs No. 37. Waterloo, ON: CIGI.

Schneider, Benu. 2014. "Sovereign Debt Restructuring: The Road Ahead." In *Debt Crises: Origins and Resolutions*, edited by Joseph E. Stiglitz and Daniel Heymann. London, UK: Palgrave Macmillan.

Schumacher, Julian, Christoph Trebesch and Henrik Enderlein. 2014. "Sovereign Defaults in Court: The Rise of Creditor Litigation 1976–2010." www.scu.edu/business/economics/upload/SovereignDefaultsinCourt.pdf.

Shin, Hyun Song and Laura Yi Zhao. 2013. "Firms as Surrogate Intermediaries: Evidence from Emerging Economies." Unpublished paper. Bendheim Center for Finance. Princeton, NJ: Princeton University.

Sturzenegger, Federico and Jeromin Zettelmeyer. 2007. "Creditors' Losses versus Debt Relief: Results from a Decade of Sovereign Debt Crises." *Journal of the European Economic Association* 5 (2): 343–51.

Summers, Lawrence. 2013. "Why stagnation might prove to be the new normal." *Financial Times*, December 15. www.ft.com/intl/cms/s/2/87cb15ea-5d1a-11e3-a558-00144feabdc0.html#axzz3Trss5AZZ.

———. 2014a. "Washington must not settle for secular stagnation." *Financial Times*, January 5. www.ft.com/intl/cms/s/2/ba0f1386-7169-11e3-8f92-00144feabdc0.html#axzz3Trss5AZZ.

———. 2014b. "Will 2014 End Up Like 1914?" Speech given to the Canadian International Council, 2014 Globalist of the Year Award, Toronto, ON, April 9. http://larrysummers.com/will-2014-look-like/.

———. 2015. "Reflections on Secular Stagnation." Keynote address to Julis-Rabinowitz Center for Public Policy and Finance, Princeton University, February 19. http://larrysummers.com/2015/02/25/reflections-on-secular-stagnation/.

Tomz, Michael. 2007. *Reputation and International Cooperation: Sovereign Debt across Three Centuries*. Princeton, NJ: Princeton University Press.

Tomz, Michael and Mark Wright. 2013. "Empirical Research on Sovereign Debt and Default." National Bureau of Economic Research Working Papers 18855.

Tran, Hung. 2014. "Could sovereign debt restructurings be made more efficient and more equitable?" Remarks presented to the UN Experts Group Meeting, Bank of England, London, April 25.

Trebesch, Christoph. 2008. "Delays in Sovereign Debt Restructurings: Should We Really Blame the Creditors?" Paper presented at the German Development Economics Conference No. 44, Zurich, German Economics Association.

UN. 2010. "External debt sustainability and development." UNGA Resolution 65/144. New York. www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/65/144.

———. 2011. "External debt sustainability and development." UNGA Resolution 66/189. New York. www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/66/189.

———. 2012. "External debt sustainability and development." UNGA Resolution 67/198. New York. www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/67/198.

———. 2014. "Towards the Establishment of a Multilateral Legal Framework for Sovereign Debt Restructuring Processes." UNGA Resolution 68/304. New York. www.un.org/ga/search/view_doc.asp?symbol=A/RES/68/304&Lang=E.

UNCTAD. 2012. *Principles on Promoting Responsible Sovereign Lending and Borrowing*. January 10. Geneva. http://unctad.org/meetings/en/MiscellaneousDocuments/Principles_Sovereign.pdf.

Von Weizsäcker, Jakob and Jacques Delpla. 2010. "The Blue Bond Proposal." Bruegel Policy Brief 2010/03. Brussels: Bruegel.

Weber, Axel. 2010. Die gesamtwirtschaftliche Bedeutung der Regulierungsreform: Rede auf der *Euro Finance Week*, November 15. Frankfurt: Deutsche Bundesbank. www.bundesbank.de/Redaktion/DE/Downloads/Presse/Reden/2010/2010_11_15_weber_gesamtwirtschaftliche_bedeutung_regulierungsreform.pdf?__blob=publicationFile.

Weder di Mauro, Beatrice and Jeromin Zettelmeyer. 2010. "European Debt Restructuring Mechanism as a Tool for Crisis Prevention." VoxEU, November 26. Geneva: CEPR. www.voxeu.org/article/european-debt-restructuring-mechanism-tool-crisis-prevention.

Wessel, David. 2015. "Spending on Our Crumbling Infrastructure." *The Wall Street Journal, Washington Wire* (blog) March 10. http://blogs.wsj.com/washwire/2015/03/10/spending-on-our-crumbling-infrastructure/.

Wheatley, Jonathan. 2014. "Original sin in emerging markets: it's back." *Financial Times, Beyondbrics* (blog), February 7. http://blogs.ft.com/beyond-brics/2014/02/07/original-sin-in-emerging-markets-its-back/.

Wolf, Martin. 2014. *The Shifts and the Shocks: What We've Learned — and Have Still to Learn — from the Financial Crisis*. London, UK: Penguin.

Xafa, Miranda. 2014a. *Sovereign Debt Crisis Management: Lessons from the 2012 Greek Debt Restructuring*. CIGI Papers No. 33. Waterloo, ON: CIGI.

———. 2014b. "The IMF's Lending Framework and Sovereign Debt Restructuring." CIGI Commentaries. Waterloo, ON: CIGI.

Zettelmeyer, Jeromin, Marcos Chamon and Ran Bi. 2011. "The Problem That Wasn't: Coordination Failures in Sovereign Debt Restructurings." IMF Working Paper 11/265.

Zettelmeyer, Jeromin, Christoph Trebesch and Mitu Gulati. 2013. "The Greek Debt Restructuring: An Autopsy." *Economic Policy* 28 (75): 513–63.

ACKNOWLEDGEMENTS

The authors thank CIGI and CIGI's Global Economy Program for their support of the consultation process on which this report rests. A wide range of firms, organizations and institutions (noted in the Annex) hosted, facilitated and underwrote discussions on the ideas presented in this report and their collaboration is acknowledged with appreciation. The authors are particularly grateful to the individuals and teams who made these conversations possible. Helpful exchanges with or comments from Reza Baqir, David Beers, Agnes Belaisch, Amar Bhattacharya, Andreas Billmeier, Charles Blitzer, Jean Boivin, Martin Brooke, Lee Buchheit, Tom Bernes, Hugh Bredenkamp, Jan Dehn, Tim DeSieno, Aitor Erce, Matthew Fisher, Gene Frieda, John Galbraith, Anna Gelpern, Martin Guzman, Sean Hagan, Jim Haley, Barry Herman, Mark Jewett, Mark Joy, Jürgen Kaiser, Robert Kahn, Arend Kapteyn, Christian Keller, Christian Kopf, Eric LeCompte, Yan Liu, Domenico Lombardi, Alan Macarthur, Tiff Macklem, Miguel Martinez, Jens Nystedt, José Antonio Ocampo, Christoph Paulus, Kunibert Raffer, Debora Revoltella, Raymond Ritter, Christoph Rosenberg, Nouriel Roubini, Jeffrey Sachs, Eric Santor, Susan Schadler, Benu Schneider, Brad Setser, Mark Siegel, Shari Spiegel, Frederico Steinberg, Joseph Stiglitz, Livio Stracca, Jean-Louis Tiernan, David Vines, Hongying Wang, Brad Wickens, Ngaire Woods, Miranda Xafa, Jeromin Zettelmeyer and three anonymous referees are acknowledged with thanks. As always, the usual disclaimer applies and all errors and omissions remain the full responsibility of the authors themselves.

ABOUT CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

For more information, please visit www.cigionline.org.

CIGI MASTHEAD

Executive

President	Rohinton P. Medhora
Director of the International Law Research Program	Oonagh Fitzgerald
Director of the Global Security & Politics Program	Fen Osler Hampson
Director of Human Resources	Susan Hirst
Vice President of Public Affairs	Fred Kuntz
Director of the Global Economy Program	Domenico Lombardi
Vice President of Finance	Mark Menard
Chief of Staff and General Counsel	Aaron Shull

Publications

Managing Editor, Publications	Carol Bonnett
Publications Editor	Jennifer Goyder
Publications Editor	Vivian Moser
Publications Editor	Patricia Holmes
Publications Editor	Nicole Langlois
Graphic Designer	Melodie Wakefield
Graphic Designer	Sara Moore

Communications

Communications Manager	Tammy Bender	tbender@cigionline.org (1 519 885 2444 x 7356)