PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING

Report on Implementation by the Principles Consultative Group

With A Comprehensive Update on Investor Relations Programs and Data Transparency

OCTOBER 2018

TRANSPARENCY COOPERATION GOOD FAITH FAIR TREATMENT

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CONTENTS

I. Overview 3

II. *Principles Consultative Group* (PCG) Discussions on Regional and Country Developments 7

a. Annual Meeting of the *Group of Trustees* 7

b. Overview of PCG discussions 7

c. PCG Discussions on Country Cases 8

d. International Capital Markets and Emerging Markets Roundtable 12

III. Sovereign Bond Markets 12

Debt Transparency Initiative 12

IV. Investor Relations (IR) and Data Dissemination 14

a. IIF Assessments of Investor Relations and Data Dissemination Practices 15

b. IIF 2018 Assessment Results 16

Boxes

1. Benefits of Implementing the *Principles* 5

2. Framework for the Monitoring of Implementation of the *Principles* 6

Charts

1. Private Non-Resident Capital Inflows to Emerging Markets 3

The cut-off date for the data used in this report was October 2, 2018.

Tables

1. Active Investor Relations Programs 14

2. Overall Assessment of Investor Relations and Data Transparency Practices 18

3. Assessment of Data Dissemination Practices 20

Appendices

A. Evaluation Criteria for Investor Relations Programs 23

B. Differences Between IR Offices and Investment Promotion Agencies 27

Annexes

I. The *Principles for Stable Capital Flows and Fair Debt Restructuring* 29

II. *Addendum* to the *Principles for Stable Capital Flows and Fair Debt Restructuring* 33

III. Members of the *Group of Trustees* of the *Principles* 38

IV. Members of the *Principles Consultative Group* 40

V. IIF Best Practices in Investor Relations 42

VI. IIF Best Practices for the Formation and Operations of Creditor Committees 47

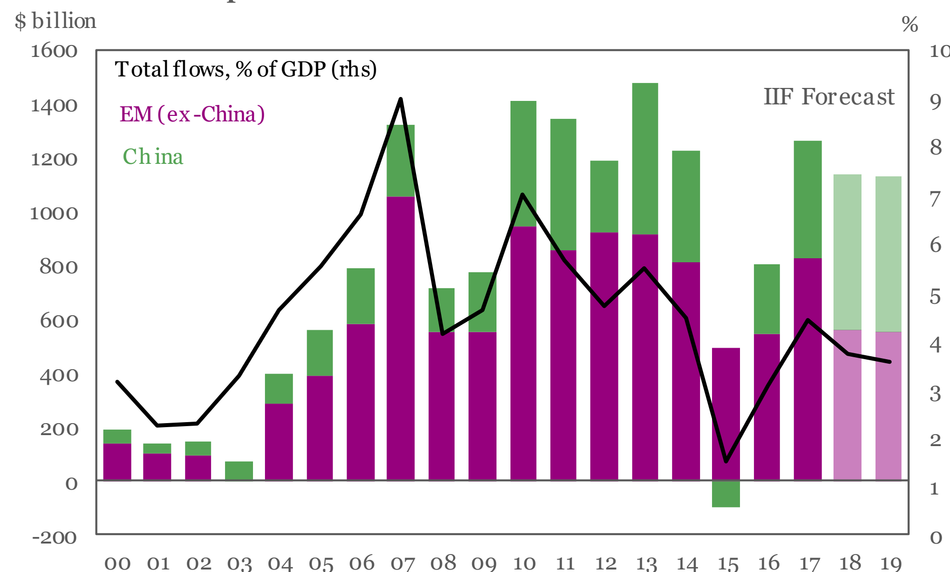
I. Overview

Non-resident capital flows to the 25 major emerging markets monitored by the IIF are estimated to fall from over $1.2 trillion in 2017 to some $1.1 trillion in 2018. However, there has been significant differentiation across countries: in particular, flows to China are projected to rise to a record high of $580 billion in 2018, helped by further steps to open China's bond market and MSCI's decision to include yuan-denominated Chinese stocks into its benchmark index. In contrast, investor appetite for other emerging markets has been very subdued. Excluding China, non-resident capital flows to emerging markets are anticipated to be just $560 billion in 2018—nearly 30% lower than in 2017 (Chart 1). Trade-related tensions are proving to be a headwind for FDI flows across many emerging markets, while flows more broadly have been dampened by factors including diminishing global central bank liquidity, higher U.S. short-term borrowing costs, a stronger U.S. dollar, concern about rising debt levels, geopolitical risk and idiosyncratic domestic developments. Downside risks remain significant. Further escalation in U.S.-China trade tensions could weigh on global trade volumes—with negative repercussions for growth in emerging markets—and prompt still more caution in investor behavior. This in turn would weigh on portfolio, banking and trade-related flows to emerging markets. An increase in the growth differential between the U.S. and other mature markets could feed into further U.S. dollar strength, prompting global investors to favor U.S. securities over riskier EM assets (a trend that has been apparent in global fund flows this year). Upcoming elections highlight the risk of further populist and/or protectionist rhetoric— which could pose challenges for fiscal policy and debt management.

In this volatile and challenging environment, the *Principles for Stable Capital Flows and Fair Debt Restructuring* continue to serve as a helpful framework for crisis prevention and resolution, particularly in the cases of sovereign debt restructuring, such as those featured in this report. The *Principles* constitute a voluntary code of conduct between sovereign debt issuers and their private sector creditors, which was agreed to in 2004 and endorsed by the G20 Ministerial Meeting in Berlin in November 2004 (see Annex I). Until October 2010, the *Principles* applied only to sovereign issuers in emerging markets, but their applicability has since been broadened to encompass all sovereign issuers (on a voluntary basis) and non-sovereign entities in cases where the state plays a major role in influencing the legal parameters of the debt restructuring.

Chart 1

Non-Resident Capital Flows to EMs and EM-DM Growth Differential



The *Principles* incorporate voluntary, market-based, flexible guidelines for the behavior of sovereign debtors and private creditors with the aim of promoting and maintaining stable capital flows, financial stability and sustainable growth. The *Principles* promote crisis prevention through the pursuit of strong policies, data and policy transparency, and open communication and dialogue with creditors and investors —particularly through investor relations programs (IRPs). The *Principles* strive for effective crisis resolution through, *inter alia*, good-faith negotiations with representative groups of creditors and non-discriminatory treatment of all creditors. The *Principles* are monitored by two oversight bodies—the *Group of Trustees* and the *Principles Consultative Group (PCG),* which includes senior officials from developed and emerging-market countries, as well as senior bankers and investors.

Since the *Principles* were launched in 2004, their effective implementation has helped safeguard access to private external financing during periods of global financial stress (see Box 1). Countries that have employed the combination of good policies, good communication and disclosure practices—especially through active IRPs—have been able to maintain investor confidence and have performed better relative to others, both during the 2008-09 global financial crisis and since then.

In view of evolving trends in global financial and sovereign debt markets, the PCG has continued to have extensive discussions on strengthening the framework for sovereign debt markets. The discussions have covered the role of debt transparency in sovereign debt markets as well as efforts to strengthen coordination between public and private sector creditors on this issue. The PCG was updated on developments in the recent sovereign debt restructuring processes in Mozambique, Chad and Congo. The group also closely followed the recent debt default in Barbados, as well as the developing sovereign debt crisis in Venezuela.

Box 1. BENEFITS OF IMPLEMENTING THE *PRINCIPLES*

The *Principles'* greatest strength is derived from the incorporation of voluntary, market-based, flexible guidelines for the behaviors and actions of debtors and creditors, which have been developed by all concerned parties. The main benefit for the system as a whole is their proactive and growth-oriented focus given that the *Principles* are operative not only after a crisis has occurred, but also in the early stages and during periods of diminished market access.

The *Principles* also yield substantial shared benefits for sovereign issuers and their creditors. By emphasizing crisis prevention, the *Principles* can offer significant benefits to sovereign borrowers by helping them reduce debtor country vulnerabilities to economic or financial crises, as well as the frequency and severity of crises and the huge economic costs associated with such crises, by promoting:

- Information sharing and close consultations between debtors and their creditors to provide incentives for sound policy action in order to build market confidence, thus ensuring stable capital flows to these countries and preserving financial stability.
- Enhanced creditor–debtor communication by encouraging debtors to strengthen IR activity based on good market practices and encouraging investors to provide feedback. IR practices enable policymakers to make market-informed policy decisions.
- Early corrective action through sound policy-making, stimulated in some cases by intensified IR activity or based on direct consultations between the debtor and its creditors.

In cases where debt restructuring is deemed unavoidable, the *Principles* encourage cooperation between debtors and creditors in an orderly process based on engagement and good-faith negotiations toward a fair resolution of debt-servicing difficulties. Such actions can accelerate a country's restoration of market access and economic growth.

Through these cooperative actions, the *Principles* have underpinned a sustainable and healthy flow of private capital to emerging-market economies, facilitating needed investment for long-term growth. In addition, cooperative action and enhanced creditor–debtor communication are consistent with the implementation of debt relief programs supported by multilateral organizations and public sector creditors, in particular, the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative. New sovereign issuers in particular stand to benefit from the proactive implementation of enhanced data transparency and IR practices as recommended by the *Principles*. New issuers can attract investment through strengthened communication with creditors.

Box 2. FRAMEWORK FOR MONITORING THE IMPLEMENTATION OF THE PRINCIPLES

The *Principles* set forth a voluntary approach to debtor–creditor relations, designed to promote stable capital flows to emerging-market and other debtor countries through enhanced transparency, dialogue, good-faith negotiations, and equal treatment of creditors. The implementation of the *Principles* is based on the cooperation and partnership between issuers and investors that was evident during the discussion that led to their creation.

The ***Group of Trustees*** is the guardian of the *Principles*. The Group consists of 40 current and former leaders in global finance with exceptional experience and credibility. The Group has three co-chairs. The current co-chairs of the Group are **Axel Weber**, Chairman of the Board of Directors, UBS Group AG and former President of the Bundesbank; **François Villeroy de Galhau**, Governor of Banque de France; **Yi Gang**, Governor of the People's Bank of China (see Annex III for the list of all members of the Group of Trustees).

The Trustees meet once a year to review the progress being made on the implementation of the *Principles* within the framework of the international financial architecture. The Group oversees the work of the **Principles Consultative Group (PCG)**, a select group of finance and central bank officials with senior representatives of the private financial community tasked with monitoring and encouraging the practical application of the *Principles*.

The PCG currently has 24 members, including finance ministry and central bank officials from a diverse group of emerging markets and senior representatives of the private financial community, many of whom were instrumental in the formulation of the *Principles* (see Annex IV for a list of the PCG members). The membership of the Group has increased since its first meeting in 2005 to represent more adequately the evolution of global finance in emerging markets and other debtor countries. The PCG maintains an appropriate balance between private and public sector members, as well as membership balanced in geographical scope. PCG conference calls are held regularly to discuss implementation issues, country cases, and implications of developments in global capital markets. Members enrich PCG discussions with diverse experiences and perspectives.

The IIF supports both the PCG and the Group of Trustees as their secretariat. The IIF secretariat consults with members of the PCG as well as other market participants as to which country cases or regions to include in PCG discussions. It also prepares background material on international capital market developments, country issues, and other topics on the agenda.

II. PCG Discussions on Regional and Country Developments

a. Annual Meeting of the Group of Trustees

Members of the Group of Trustees of the *Principles* meet once a year to review the progress being made on the implementation of the *Principles* within the framework of the international financial architecture.

The Trustees discussed the comprehensive 2017 Report on the Implementation of the *Principles* presented to them by the *Principles Consultative Group* (PCG), which includes senior officials from emerging and mature market economies as well as senior bankers and investors. They noted that key elements of the *Principles* have been applied in the process of negotiating the sovereign debt restructuring in Belize in March 2017.

Over the course of 2017, members of the PCG, together with the IIF and International Capital Market Association (ICMA), collaborated to update Annex VI of the Principles – "Best Practices for the Formation and Operation of Creditor Committees" – to add references to recent innovations in sovereign bond contracts, including aggregated CACs, while preserving the good faith criterion. The Trustees welcomed the confirmation by the PCG that creditor committees continue to be an important vehicle for negotiations between sovereign debtors and private creditors in both pre- and post-default scenarios. They approved the amended version of Annex VI and the Executive Summary and encouraged the PCG to use the documents to raise support for the principle of creditor engagement.

The Trustees also noted the PCG's useful role in efforts to strengthen the framework for sovereign debt markets by engaging with the Bank of England Working Group in the process of development of the model set of terms and conditions for GDP-linked bonds.

The Trustees noted the continued discussions between private and public creditors on strengthening coordination between the two. Discussion have centered around coordination, cooperation and information sharing between public and private sector creditors before and during debt restructuring. The Trustees agreed that cooperation, information sharing, and fair burden sharing by all stakeholders have been and will continue to be the cornerstones of the most successful sovereign debt restructuring agreements.

During the 2017 Meeting, the Trustees bid farewell to Mr. Christian Noyer, who transfered his co-chair duties to Governor Villeroy de Galhau. The Trustees welcomed Governor de Galhau as Co-Chair and a valuable addition to the leadership of the Group.

b. Overview of PCG Discussions

Over the past year, the PCG has held two conference calls to review developments in evolving country cases of sovereign debt restructuring, noting the resurgence of indebtedness in sub-Saharan Africa (SSA). Sovereign borrowing in SSA has surged over the past decade: according to the IMF, average public debt levels in the region surpassed 50% of GDP in 2017. This follows the cancellation of $100 billion in external debt through the 1996 HIPC and 2005 MDRI initiatives. However, this time around, the composition of the debt is different, with increased exposure to private creditors—both bondholders and private contractors—as well as non-Paris Club bilateral creditors. As seen in some of the country cases followed by the PCG, this has sometimes translated into more complicated debt restructuring processes.

In addition to country cases, the PCG followed the evolving discussion on strengthening the framework for sovereign debt markets through improvements in debt transparency. The need for greater transparency in EM sovereign debt markets has brought together a wide range of stakeholders, including the Paris Club, national authorities, the IMF, civil society organizations and private sector financial firms. A new IIF Debt Transparency Working Group is working to develop a voluntary set of principles to promote transparency in EM debt markets.

c. PCG Discussions on Country Cases

Over the past year, the PCG discussed the debt restructurings in **Mozambique, Chad** and **Congo**. The PCG also kept abreast of the unfolding debt defaults in **Venezuela** and in **Barbados**.

MOZAMBIQUE

Some 17 months after announcing it would seek a restructuring of $2 billion in external commercial debt, including of the $726 million Eurobond due in 2023 and almost $1.4 billion in previously undisclosed state-guaranteed loans, Mozambique convened a meeting with its external commercial creditors on March 20. The existence of hidden loans emerged in April 2016, only weeks after the government and the bondholders agreed to a bond exchange, with bondholders trading in bonds issued by the state-owned Ematum company for sovereign bonds with extended maturities. The IMF suspended the Mozambique program later that year; a number of bilateral donors also suspended aid and budget support. Since then the country's Parliament has ruled the loans unlawful and unconstitutional, while an international audit, published in June 2017, could not account for at least half a billion in Ematum loan proceeds.

Despite this, the government's March 20 restructuring proposal treats all privately-held external debt equally with the option to swap into one of three instruments, ranging in maturity from eight to 16 years and with haircuts of 10% -20% for shorter maturity bonds. Additionally, it proposes a 50% haircut on $249 million in past due interest, of which $138 million is for the Eurobond. Some analysts suggest this could imply a net present value (NPV) loss of 45%-55%. Mozambique is not planning to restructure its bilateral credits (about 40% of GDP) or debt owed to multilaterals.

On March 21, the Global Group of Mozambique's Bondholders (GGMB), which reportedly represents about 80% of bondholders, issued a press release indicating that they consider the government's presentation incomplete, with a lack of "rigorous analysis of Mozambique's financing capacity" in both the short term – "taking account of ..the recognized need for fiscal consolidation" – and the longer term "when financing capacity will expand rapidly" with the expected realization of Mozambique's gas projects. Additionally, the press release notes "that any feasible resolution with respect to the Eurobonds should reflect best practices in inter-creditor equity." The parties had an additional meeting in April on the sidelines of the IMF/World Bank Spring Meetings in Washington D.C. Both parties have expressed a desire to engage in good faith discussions.

According to news reports, in early August, the bondholders' committee submitted a counteroffer , proposing to exchange their claims for a package of new bonds and a longer-term value recovery instrument akin to a GDP warrant, but linked to fiscal revenue stemming from the large LNG projects which are expected to begin coming onstream in the late 2020s. In the period through the maturity of the existing bonds, the new bonds would provide about 80% cash flow relief or almost $1 billion due to their lower interest rates and longer maturity. Annual payments on the value recovery security would be on a sliding scale and capped at 3% of LNG-linked fiscal revenue.

Mozambique is still struggling from the impact of excessive debt, with debt-to-GDP now at over 120%. While economic conditions have improved somewhat and tighter monetary policy has driven inflation down to 3% from the 2016 peak of 26%, record-high interest rates have substantially reduced credit to the private sector. Real GDP growth is projected to rise very little from its current subdued 3-4% pace over the next few years, absent significant fiscal adjustments. The country has struggled to finance its budget deficits since losing access to international financial markets, donor and multilateral support in 2016. The IMF has indicated that the government needs to take additional steps to explain the $500 million in unaccounted loan proceeds before there can be another Fund program. However, the country is expected to start earning revenues in 2023 on off-shore gas reserves that were discovered in 2010, which should help with government financing.

For the last few years, Mozambique has served as a cautionary example for other emerging markets, underscoring the importance of good governance and transparency from both debtors and creditors in preserving investor confidence. In the last year, in cooperation with the IMF, the country has taken steps to fortify the implementation and enforcement of existing anti-corruption legal framework and has established a framework for contracting public debt and issuing guarantees.

VENEZUELA

Since late 2017, the economic situation in Venezuela has continued to deteriorate as the country has officially defaulted and its economic fundamentals have reached rock bottom. On November 2, 2017, Venezuela announced that it would seek a debt restructuring, while pledging to continue servicing all debt. Since then, the government has made debt payments selectively, favoring secured bonds, like PDVSA 2020,which is backed by 50.1% of CITGO shares. On November 13, S&P downgraded Venezuela's sovereign rating to selective default after the grace period on Venezuela 2019 and 2024 expired and the other credit agencies have done the same in the interim. On November 16, the ISDA Determinations Committee issued two unanimous rulings determining that a failure to pay credit event had occurred on both the sovereign and PDVSA bonds, fulfilling conditions for payouts of $1.6 billion in credit default swaps (CDS) on Venezuela 2019 and 2024 and PDVSA 2027. Both the sovereign bonds and PDVSA bonds have been trading flat since January 9 and February 11, respectively, on the recommendation of the Emerging Markets Traders Association.

Venezuela's economic situation is dire—the real GDP has decreased by 36% since 2013, and according to the IIF projections, annual inflation will increase from 2,500% in 2017 to more than 1,000,000% in 2018. Over the last five years, there have been large losses in oil production capacity, deterioration in supply chains and human capital that have decimated the oil exports and with it, access to foreign exchange (FX reserves, including gold, were only $8.7 billion in July 2018). OPEC data shows that PDVSA's overall production of oil has declined from 2.0 million to 1.278 million barrels/day since last year. Meanwhile, the economic mismanagement has been intensified by an increasingly authoritarian political situation. Nicolás Maduro won a second, six-year presidential term on May 20, prompting further international sanctions, including the Trump administration order on May 21 that bars all U.S. companies or citizens from buying debt or accounts receivable from both the Venezuelan government and the state-owned Petróleos de Venezuela (PDVSA). These sanctions, in combination with the previous set issued in August 2017, which prohibit U.S. financial institutions from purchasing any new debt or equities from either Venezuela or PDVSA, as well as personal sanctions against Maduro and other members of the leadership elite, have significantly restricted Venezuela's access to finance, except from Russia and China. In November 2017, Venezuela got a maturity extension on $3.15 billion in bilateral debt owed to Russia with minimal repayments in the first six of the 10 years. This deal did not include any rescheduling of $5 billion of PDVSA's obligations to Rosneft, which are partially backed by 49.9% of CITGO shares. In July 2018, the Development Bank of China approved a loan of $5 billion to Venezuela for petroleum development.

Currently, an estimated $56.49 billion in combined sovereign and PDVSA bonds are in default and the arrears on bond payments are up to $4.5 billion. So far, bondholders have not demanded acceleration of repayment, which could trigger cross-default provisions in other sovereign bonds and a lengthy legal

process against a cash-strapped sovereign. However, there is increasing pressure to find some remedies and assets to attach. Currently a lawsuit is pending in the US courts that will decide if PDVSA assets can be attached by Venezuela government creditors.

Creditors have attempted to organize, but negotiations with the Maduro administration are currently impossible both because of the existing sanctions and because there is lack of commitment to sound economic policies by the current government. A few committees are in the process of being formalized, comprising institutional investors, small investors and holders of some PDVSA bonds, respectively.

The composition of Venezuela's $145 billion in external debt is fairly complex. A large portion of the total public debt is not in bonds, including an estimated $23 billion bilateral debt with China, $14 billion in commercial liabilities and large exposure to arbitration claims (est. $16 billion). This has raised important questions about public-private creditor coordination in the eventuality that there is a debt restructuring. Also of concern is the lack of transparency about the terms and exact amounts associated with some of the debt owed to non-Paris Club official creditors. Finally PDVSA bonds and a few sovereign bonds do not include collective action clauses (CACs). Additionally, most sovereign bond CACs are first generation, series-by-series CACs that do not allow aggregation across series. While it is unknown when the conditions for a debt restructuring in Venezuela will be ripe, more than likely it will be a complicated exercise.

CHAD

Last summer, Chad committed to restructuring its external commercial debt as part of an IMF supported adjustment program under the Extended Credit Facility. This was the second time since 2015 the country sought a restructuring of more than $1 billion in oil-backed debt owed primarily to the oil-trading company Glencore. This type of oil-for-cash loan is an example of a pre-payment export deal that has become popular among some commodity-exporting borrowers in the last few years. In 2013 Glencore gave Chad a $600 million advance on oil shipments, followed by a second advance of $1.4 billion in 2014. In late 2015, Chad restructured its debt with Glencore by consolidating the oil sale advances and extending their maturities.

The most recent debt negotiations took longer than anticipated in the program, due to the complexities of the highly collateralized loan and the diversity of the creditors– including a number of banks and some asset management funds, in addition to Glencore. In February, the parties reached an agreement in principle which included extension of maturity from 2022 to 2030, reduction in the interest rate and a two-year grace period on principal payments. The agreement includes contingencies to provide protection to Chad against lower oil receipts. On June 28, the agreement was finalized by all holders of the loan. The agreement meets conditions laid down by the IMF for consistency with the fiscal outlook and medium-term debt sustainability.

The country has been in an economic crisis since the 2014 oil price shock. Chad's composition of external public debt has changed significantly over the past decade, since benefiting from the HIPC and MDRI debt relief ($756 million was forgiven in 2015). The country's share of external multilateral debt fell from 86.5% in 2008 to 24% in 2017, while the share of commercial debt has increased from almost zero in 2008 to almost 50% in 2017, composed mostly of the Glencore loan.

REPUBLIC OF CONGO

Republic of Congo experienced a sharp economic contraction in 2016 related to the decline in international oil prices, leading the country authorities to approach the IMF for assistance in early 2017.

Congo's external debt stock has grown rapidly since 2010, when it earned almost $2 billion in debt forgiveness after reaching the HIPC Initiative Completion Point. The HIPC process brought Congo's external public debt to GDP ratio down from 55% in 2009 to just over 20% by end-2010. Since then, Congo has rapidly accumulated external debt, with large amounts owed to China. According to the 2015 IMF DSA, bilateral debt owed by Congo to China increased from $369 million in 2010 to almost $3.2 billion in 2014 (almost two-thirds of Congo's total $4.9 billion external debt stock in 2014). While a more recent DSA has not been released, it is thought that bilateral debt owed to China continues to form a very substantial part of the total external debt.

In summer of 2017, the IMF deferred discussion on a possible program with Republic of Congo after discovering that the country had not fully disclosed its debt during the IMF mission in March 2017. By October, the IMF revised estimates of Congo's debt to GDP ratio dramatically upward, from just over 75% to 110%. It has been reported that the country had undisclosed debt to commodity trading companies, who privately lent money to the national oil company, Société Nationale des Pétroles du Congo, securitized by future oil revenues.

In total, it is estimated that the Republic of Congo owes more than $9 billion in external debt, including about $2.3 in oil-backed debt. These figures do not include a $1 billion claim for alleged unpaid bills by a construction firm Commisimpex.

The decade-long dispute against Commisimpex has also weighed on the economy and investor confidence. In July 2017 Congo went into temporary default on its Eurobond after Commisimpex sent a restraining notice letter to the Trustee, leading the Trustee to temporarily freeze distribution to bondholders of a $21 million coupon payment made by Congo to holders of its $363 million Eurobond.

Congo authorities have appointed legal and financial advisors. Commercial creditors, comprising two large oil trading companies and a variety of regional and European banks, have also formed a committee. It has been reported that commercial creditors and government advisors have engaged in good faith negotiations and have exchanged proposals for a restructuring. Moving forward hinges on resumption of the IMF program. China and Chinese companies are the largest creditors and it is not known whether there is any possibility for comparability of treatment.

BARBADOS

Soon after her election in May 2018, Prime Minister Mia Mottley announced that the government would seek a comprehensive debt restructuring. The government said that bilateral debt would be excluded from the restructuring. Mottley also announced that her government has discovered previously undisclosed financial liabilities, which increased the country's central government debt (including holdings by the pension scheme) from 137% of GDP to 155%. Arrears are estimated at 12% of GDP. Barbados has endured weak nominal growth since the global financial crisis. While the fiscal deficit has decreased in last few years, it is fairly large at 4% of GDP. The Central Bank has been financing the budget, contributing to a precipitous drop in FX reserves. While the IMF has deemed the debt unsustainable in the most recent DSA, it has also noted that external debt—at 25% of GDP– is relatively low and does not by itself pose solvency risks.

Starting in June, the government suspended debt payments owed to external commercial creditors. It continued paying domestic interest payments, while rolling over principal maturities on local currency debt. While some external creditors questioned the differing treatment of domestic and external debt, government advisors noted that it was based on currency of the debt and not the nationality of creditors, adding that Barbados is committed to the principles of transparency and equal burden sharing and that adjustment will be made in NPV terms to account for payments made. Barbados has released the latest Article IV report that was kept private by the previous administration. There are at least two creditor committees, one for external commercial creditors, formed in June, and another for domestic creditors.

On September 7, Barbados reached a staff-level agreement with the IMF on a 48-month Extended Fund Facility (EFF) in the amount of $290 million, with about $49 million made available after the Executive Board approval on October 1. Also on September 7, Barbados launched a domestic debt exchange. On

September 11, the external creditor committee issued a press statement, claiming that there has been "no meaningful interaction with the Barbados authorities or their advisors over the past two weeks as to the terms that underlie the Staff-Level Agreement, and in particular, any future financing gaps implied by such terms. Engagement has also not been forthcoming with respect to Barbados' plan for restoring external financial viability." The statement also emphasized that while the Committee is prepared to accept deferral of principal during the proposed period of the EFF, it is not ready to accept a reduction in the aggregate level of interest payable, either during the EFF program or after.

e. International Capital Markets and Emerging Markets Roundtable

On April 20, 2018, the leadership of the Group of Trustees hosted the 12th annual International Capital Markets and Emerging Markets Roundtable, bringing together policymakers and senior leaders in global finance from both mature and emerging markets, public and private sectors, as well as representatives of international financial institutions. This was Governor Yi Gang's inaugural event as Co-Chair and he opened the event with welcoming remarks before leaving for the G20 meetings. Governor Francois Villeroy de Galhau and Dr. Axel Weber took turns chairing panel discussions one and two, respectively. The first panel discussion focused on the outlook for capital flows to emerging markets. The second panel addressed the role of capital control measures in managing volatility of emerging market capital flows. Despite overlapping with the G20 meetings, the Roundtable drew over 200 participants, confirming its standing as a major forum for informal discussions between public and private decision makers.

III. Sovereign Bond Markets

Debt Transparency Initiative

In response to requests from official sector collaborators, private sector financial firms and civil society organizations to support efforts to promote transparency in EM sovereign debt markets, the IIF launched a debt transparency initiative in April 2018. Greater transparency in sovereign debt markets is consistent with the *Principles for Stable Capital Flows*, which count disclosure and transparency as key tools for supporting stable capital flows to EMs, aiding in crisis prevention, and promoting speedy resolution of crises when they do occur. The issue of transparency around sovereign borrowing has garnered broad prominence recently, after several EM sovereign borrowers had debt/GDP ratios revised up significantly due to the discovery of previously unknown or unreported liabilities (see previous discussion in country cases).

The IIF Board of Directors formally endorsed the initiative in early June, resulting in the formation of the IIF Debt Transparency Working Group (DTWG). This group now has over 20 IIF member firms, all leading lenders in emerging markets. The first physical meeting of the DTWG was held in Paris on June 19, followed by a series of conference calls; another meeting is planned for October 11 in Bali alongside the IIF Annual Membership Meeting. Representatives of the Paris Club, IMF, UK Treasury, U.S. Treasury and European Commission—as well as a number of civil society organizations—are participating in the initiative as observers.

The primary mandate of the Debt Transparency Initiative is to find ways to improve disclosure and make comprehensive debt data more accessible. More transparency will allow lenders, borrowers, investors, the official sector, and the general public to have a better understanding of country debt dynamics and

debt sustainability. Towards this end, the DTWG is currently developing a voluntary set of principles to promote transparency in EM debt markets. A progress report on the initiative will be presented to the Group of Trustees in Bali for their consideration and support. The ultimate goal will be to submit the new voluntary Principles on Debt Transparency to the G20 for endorsement.

Discussions at the 18th annual meeting of the IIF with the Paris Club creditors on June 20 reflected widespread support for greater debt transparency across both public and private sectors. Official sector representatives highlighted efforts to support both transparency and debt sustainability, including the G20 Operational Guidelines for Sustainable Financing as well the importance of the Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries in this context. Private sector representatives expressed strong support for better disclosure practices and enhanced transparency—which in turn should help improve debt sustainability. The discussion also emphasized the many other benefits of greater transparency including: support for good governance and fiscal discipline; better debt management (including better access to funding and lower borrowing costs); improved credit assessment and decision making by lenders; assisting in the fight against corruption and reducing the incidence of market shocks. While there was clearly shared agreement on the merits of greater debt transparency, private sector participants also expressed concerns about possible unintended consequences, which could include constraints on financing to EM and developing country borrowers. Private-sector speakers also highlighted sensitivities around potential anti-trust issues. Many official sector participants emphasized the importance of debt sustainability, recalling the need to take into consideration all available data, including international financial institutions' DSA and debt limit policies, to have a clear view of the debt sustainability of a country.

Participants broadly agreed that securing participation of a wide range of private lenders should be an important part of the initiative. Reaching out to these lenders—as well as to EM borrowing countries—will be a key part of this Debt Transparency Initiative.

IV. Investor Relations and Data Transparency

Since the launch of the *Principles for Stable Capital Flows and Fair Debt Restructuring* in 2004, a growing number of sovereign borrowers have recognized the importance of active investor relations (IR) programs and strong data dissemination practices as tools to strengthen their relationship with the investors. The emphasis of these programs on data and policy transparency and proactive dialogue between sovereign debt issuers and investors is fundamental to crisis prevention and resolution. The *Principles* are built on good market practices by both issuers and investors and are complemented by the support of these practices from the international financial community, including the IMF and the World Bank. Under the current, increasingly volatile market environment, and particularly with the rising US interest rates, emerging markets could face pressures in attracting private capital inflows. Enhancing IR and data transparency practices could play an important role in attracting capital flows and maintaining the stability of sovereign debt markets.

Regular, proactive investor relations programs have enabled government debt managers and central bank officials to understand and communicate better with their investor base, address concerns and questions, and make market-informed policies. They have also made it possible for investors to become better informed about the current economic developments and prospects as well as the issuing country's key economic policies and objectives. By helping sovereign debt issuers build trust and long-term relationships with their investors during periods of calm financial markets, IR programs have proven to be helpful instruments for authorities to navigate turbulent periods, as the experience with the 2008-09 global financial crisis and subsequent periods of market volatility have demonstrated. As such, they are key elements of the *Principles*.

Table 1
Active Investor Relations Programs

Country	IR Program Launching Year	Location
Mexico	1995	Ministry of Finance and Public Credit
Brazil	April 1999 2001	Banco Central do Brasil The National Treasury
The Philippines	July 2001	Bangko Sentral ng Pilippinas
Turkey	August 2005	Prime Ministry Undersecretariat of Treasury
Indonesia	February 2006	Bank Indonesia
Peru	April 2006	Ministry of Economy and Finance
Morocco	December 2007	Ministry of Economy and Finance
Colombia	2008 / Upgraded 2010	Directorate of Public Credit, Ministry of Finance and Public Credit
Chile	Upgraded 2009	Ministry of Finance
Poland	February 2009	Ministry of Finance
The Dominican Republic	September 2009	Public Credit Directory, Ministry of Finance
Panama	April 2011	Ministry of Economy and Finance
Uruguay	April 2011	Public Credit Directory, Ministry of Economy and Finance
South Africa	June 2011	National Treasury
Russian Federation	2016	Ministry of Finance, Central Bank of Russia
Ukraine	2018	Ministry of Finance

Emerging market sovereign debtors have made enormous strides over the past several years in enhancing their IR and data dissemination practices. These practices cover a range of activities and communication channels, and they entail different levels of intensity and formality in dealing with investors. A number of the relatively more advanced emerging market countries with comparatively heavy reliance on bond issuance in international capital markets have found it useful to establish formal investor relations programs (IRPs). These programs involve the establishment of specialized units with expert and identifiable staff and dedicated official websites that facilitate communication and interaction with investors. Out of the 38 countries monitored by the IIF, the number of countries with IRPs has increased from 5 in 2004 to 16 by 2018. In many cases, country officials have relied on the direct advice of the IIF staff in setting up their investor relations programs. The countries with IRPs are listed in Table 1.

The IIF monitors and assesses the IR and data dissemination practices of most emerging market and developing countries from different geographical regions, including sub-Saharan Africa. The number of countries covered has increased since the IIF's first assessment in 2005, from 30 to 38 major issuers. The usefulness of effective IR practices and data transparency is not limited only to emerging market and developing economies. They can be equally useful to all sovereign debt issuers. Yet, in practice, very few advanced countries have formal IRPs as data and policy transparency is instead achieved through open communication and dialogue between the authorities of these countries and their investors --who tend to be predominantly financial institutions, institutional investors and large asset managers. Foreign investors are also increasing their exposure to emerging and frontier markets and to new issuers among developing countries. Among many other benefits, better disclosure and transparency help reduce funding costs for EM borrowers and improve access to capital markets (see for example the recent IMF Working Paper on this topic), benefitting the entire financial system.

a. IIF Assessments of IR and Data Dissemination Practices

The IIF's deep involvement with investor relations and data transparency practices in emerging market economies dates back to the mid-1990s. Leveraging on its vast private sector membership, the IIF has developed a set of 20 criteria for the evaluation of IR practices and a set of 23 criteria for the evaluation of the data dissemination practices of emerging market sovereign debt issuers. These criteria are listed in Tables 3 and 4. Each country is assigned a weighted score based on the number of criteria it meets and the weights of each of these criteria ranging from 0 to 3. Through 2015, scores were fulfilled in a binary fashion, wherein evidence of satisfaction of the criterion guaranteed full credit, while no evidence resulted in a zero [0] score. Starting in 2016, countries are awarded partial credit in order to make the scorecard more granular while rewarding countries for incremental improvements. A detailed description of the evaluation criteria is provided in Appendices A and B, while the best practices for investor relations are summarized in Annex V.

The criteria used reflect the areas that are of high importance to investors. Out of the 20 criteria used for IR practices and data transparency, 7 carry a weight of 3 and include factors such as the existence of a formal investor relations unit with dedicated staff, subscription to the IMF's Special Data Dissemination Standards (SDDS), effective transparency of market-related data, and the availability of forward looking policy information. Similarly, among the 23 assessment criteria for data dissemination practices, 6 carry a weight of 3 and include factors such as the availability of time series data and the adoption of accrual accounting for central government finance statistics, and the availability of time series data on central government debt and its amortization schedule.

The IIF reviews regularly with market participants the relative importance of countries' investor relations and data dissemination practices in their investment decisions. As in previous years, The IIF sought feedback from members of the IIF Council on Asset and Investment Management (CAIM) Working Group, the IIF Committee on Sovereign Risk Management (CSRM) and the private sector members of the PCG. Feedback received indicates that most private investors view country's investor relations programs as very important to making investment decisions. Alongside with access to relevant data, investors highly value the ability to maintain an open dialogue and access to senior policy makers through roadshows, investors' briefings and conference calls. In terms of data dissemination, timeliness, accuracy and consistent commitment to good data dissemination practices over multiple political cycles are the best ways to earn credibility with investors.

b. 2018 IIF Assessments Results

The 2018 IIF assessment covers the IR and data dissemination practices of 38 emerging markets that are most active in international debt capital markets. The full scoring of each country covered in the IIF IR and data dissemination indices is shown in Tables 2 and 3.

According to the 2018 IR and data transparency rankings, several emerging markets made considerable improvements in their investor relations programs. Ukraine leads the ranks as the most-improved this year—its IR score improved by over 20 points, rising from 16 to 36.5 (out of 42), after its Ministry of Finance established a formal investor relations program in 2018 and made extensive improvements to its website and operations. Additionally, it gained full points for identifying IR staff on its website, providing macroeconomic data in market-friendly format, publishing an archive of investor presentations and utilizing web to communicate with investors. Besides improvements to the website, it also gained points for establishing an active investor contact list, holding non-deal roadshows, making senior policymakers accessible to investors and utilizing self-assessment of its investor relations activities. Ghana's score improved from 8 to 14, after it made improvements to its investor relations activities by utilizing web-based communication with investors, holding investor conference calls and providing archives of investor presentations and conference call materials on the website. Malaysia's score increased from 22 to 28, for having an active investor's contacts list, utilizing web-based communication with investors, organizing non-deal roadshows and investor conference calls, and performing self-assessments of investor relations activities.

Overall, the 2018 rankings of IR and data transparency practices indicate that 19 out of the 38 countries attained fairly high scores in the top quartile (32-42), while seven countries had scores in the lowest quartile (0-11). This year, five countries scored the maximum score of 42: Indonesia, Mexico, Russian Federation, Turkey and Uruguay. They are closely followed by Brazil and Peru, each with scores of 41, Colombia (40.5), South Africa (39.5), the Philippines (39); Chile (38), Panama (38), Romania (37.5) and Poland (37); and by a third group of countries, comprising Ukraine (36.5), Dominican Republic (36), Hungary (36), Thailand (34) and Korea (33).

The 2018 data dissemination ranking shows that scores of some countries have decreased from 2017, while a few have made improvements. China's score increased from 15 to 20 points for providing information on domestic and international financing of CGO, for using MGFS cash accounting and for providing time series for external debt data. Kenya's score improved from 25 to 28 for achieving timeliness in publishing CGO and external debt data. Costa Rica's score increased from 27 to 30 for providing time series of CGO data. One of the most common reasons for drop in scores this year has been due to some countries discontinuing to provide time series data in excel format or a lack of timeliness in publishing certain data (Tanzania, Nigeria, Egypt, Panama, Romania). Some countries also saw their scores drop because they discontinued publishing some debt amortization tables (Indonesia) or because such amortization tables did not meet the IIF presentation criteria (Uruguay).

The 2018 data dissemination rankings indicate that 18 countries rank in the top quartile (33-44), down from 20 in 2017. There are three countries in the lowest quartile (0-11), which is higher by one form 2017 rankings. Brazil and Turkey earn the distinction of having the highest possible score of 44, followed by five countries in the second tier (Chile, Mexico, Peru, Dominican Republic and South Africa) with scores ranging from 41 to 42. The third tier of top performers (with scores from 33-39) includes Croatia, Hungary, Romania, Russia, Uruguay, Morocco, Poland, Bulgaria, Colombia, Thailand, Indonesia, Egypt, and the Philippines. All these countries continue to set good examples in data dissemination practices in their respective regions.

TABLE 2
Overall Assessment of Investor Relations and Data Transparency Practices (Prioritized)

Investor Relations Practices Criteria		Investor Relations Office/Staff		Investor Relations Website			Dissemination of Macroeconomic Data and Policy Information			
		Presence of Institu-tionalized Investor Relations Activities	Investor Relations Staff Identifiable and Reachable through Website(s)	Central Bank and Government Agency Website(s) Available in English	Reciprocal Links to Central Bank, Ministry of Finance, and Other Government Agency Websites	Investors Able to Register for Website Subscription	Country Subscribes to SDDS	Effective Data Transparency of User-Relevant Data	Macro-economic Data Presented in User-Friendly Format	Historical Policy Information Available
	Weight	**2**	**3**	**3**	**1**	**1**	**3**	**3**	**2**	**2**
Country	**Score**									
Belize	**8**	0	0	3	0	1	0	1	0	0
Brazil (Treasury)	**41**	2	3	3	1	1	3	3	2	2
Bulgaria	**26.5**	0	0	3	0.5	1	3	3	2	2
Chile	**38**	2	3	3	1	1	3	3	2	2
China	**12**	0	0	3	0	0	3	1	2	0
Colombia	**40.5**	2	3	3	0.5	1	3	2	2	2
Costa Rica	**21.5**	1	1	0	1	1	3	1	0	0
Croatia	**15**	0	0	3	1	0	3	3	2	0
Dom. Rep.	**36**	2	3	3	1	1	0	3	2	0
Ecuador	**6**	0	0	0	0	0	3	2	0	0
Egypt	**20**	1	0	3	0	0	3	2	0	2
Gabon	**2**	0	0	0	0	0	0	1	0	0
Ghana	**14**	1	0	3	0	0	0	0	0	2
Hungary	**36**	2	3	3	0	1	3	3	2	2
Indonesia	**42**	2	3	3	1	1	3	3	2	2
Kenya	**10**	0	0	3	1	0	0	1	0	2
Korea, South	**33**	2	0	3	1	1	3	2	2	2
Lebanon	**25.5**	0	0	3	0	1	0	2	2	2
Malaysia	**28**	0	1.5	3	1	1	3	2	2	2
Mexico	**42**	2	3	3	1	1	3	3	2	2
Morocco	**27**	2	3	3	1	1	3	2	2	0
Nigeria	**19**	0	0	3	0	0	0	1	2	0
Pakistan	**21**	0	0	3	1	1	0	2	2	2
Panama	**38**	2	3	3	1	1	0	2	2	2
Peru	**41**	2	3	3	1	1	3	3	2	2
Philippines	**39**	2	3	3	1	1	3	2	0	2
Poland	**37**	2	3	3	1	1	3	3	2	2
Romania	**37.5**	1	1.5	3	1	1	3	3	2	2
Russia	**42**	2	3	3	1	1	3	3	2	2
South Africa	**39.5**	2	3	3	0.5	0	3	3	2	2
Tanzania	**4**	0	0	3	0	0	0	0	0	0
Thailand	**34**	1	0	3	1	1	3	3	2	2
Tunisia	**24**	0	0	1	1	0	3	2	2	2
Turkey	**42**	2	3	3	1	1	3	3	2	2
Ukraine	**36.5**	2	3	3	0.5	1	3	1	2	2
Uruguay	**42**	2	3	3	1	1	3	3	2	2
Vietnam	**7**	0	0	3	0	0	0	0	0	0
Zambia	**10**	0	0	3	0	0	0	0	0	0

TABLE 2

Overall Assessment of Investor Relations and Data Transparency Practices (Prioritized) - continued

Dissemination of Macroeconomic Data and Policy Information		Investor Relations Contact List	Feedback and Communication Channels							Regular Self-Assessment	
Forward-Looking Policy Information Available	Structural (Legal, Regulatory) Information Available	Active Investor Contact List	Web-Based Communication with Investors	Bilateral Meetings with Investors	Non-Deal Roadshow(s)	Investor Conference Call(s)	Archives of Investor Presentations and Conference Call Materials Available on Website(s)	Investor Feedback Reflected in Policy Decisions, Per Country	Senior Policymakers Accessible to Investors	Regular Self-Assessment of Investor Relations Activities	
3	2	3	2	1	1	1	3	3	2	1	
											Country
0	2	0	0	1	0	0	0	0	0	0	Belize
3	2	3	2	1	1	0	3	3	2	1	Brazil (Treasury)
3	2	1	1	1	0	0	0	3	1	0	Bulgaria
3	2	3	2	1	1	0	1	3	1	1	Chile
0	2	0	0	1	0	0	0	0	0	0	China
3	2	3	2	1	1	1	3	3	2	1	Colombia
0	0	1.5	2	0.5	0.5	0	3	3	2	1	Costa Rica
0	2	0	0	1	0	0	0	0	0	0	Croatia
3	2	3	2	1	1	0	3	3	2	1	Dom. Rep.
0	0	0	0	1	0	0	0	0	0	0	Ecuador
1	2	1	2	1	0	0	0	0	2	0	Egypt
0	0	0	0	1	0	0	0	0	0	0	Gabon
0	2	0	1	1	0	1	3	0	0	0	Ghana
3	2	3	2	1	1	0	0	3	2	0	Hungary
3	2	3	2	1	1	1	3	3	2	1	Indonesia
0	2	0	0	1	0	0	0	0	0	0	Kenya
3	2	3	1	1	1	0	0	3	2	1	Korea, South
3	2	3	1	1	0	0	0	3	2	0.5	Lebanon
0	2	1	1	1	1	1	0	3	2	0.5	Malaysia
3	2	3	2	1	1	1	3	3	2	1	Mexico
0	0	3	2	1	0	0	0	3	0	1	Morocco
3	2	0	2	1	1	0	0	3	1	0	Nigeria
1	2	0	0	1	1	0	0	3	2	0	Pakistan
3	2	3	2	1	1	1	3	3	2	1	Panama
3	2	3	2	1	1	0	3	3	2	1	Peru
3	2	3	2	1	1	1	3	3	2	1	Philippines
3	2	3	2	1	1	0	0	3	2	0	Poland
3	2	3	2	1	1	0	3	3	2	0	Romania
3	2	3	2	1	1	1	3	3	2	1	Russia
3	2	3	2	1	1	0	3	3	2	1	South Africa
0	0	0	0	1	0	0	0	0	0	0	Tanzania
1	2	3	2	1	0	0	3	3	2	1	Thailand
0	2	1	2	1	1	0	0	3	2	1	Tunisia
3	2	3	2	1	1	1	3	3	2	1	Turkey
1	2	3	2	1	1	0	3	3	2	1	Ukraine
3	2	3	2	1	1	1	3	3	2	1	Uruguay
0	0	0	0	1	0	0	0	3	0	0	Vietnam
0	2	3	0	1	0	0	0	0	1	0	Zambia

TABLE 3

Assessment of Data Dissemination Practices (Prioritized)

Elements in Data Dissemination Practices		Central Government Operations (CGO) **							Central Government Debt (CGD) ***			
		SDDS Subscriber*	CGO Periodicity	CGO Timeli-ness	Time Series Availability	Domestic and External Financing Availability	MGFS 1986 (Cash Accounting)	GFSM 2001 or Transition Towards GFSM 2001 (Accrual Accounting)	CGD Timeli-ness	CGD Debt Periodicity	Time Series Availability	Domestic and External Debt Breakdown Availability
	Weight	2	1	2	3	1	1	3	2	1	3	1
Country	Score											
Belize	15	1	0	0	3	0	0	0	0	1	3	1
Brazil	44	2	1	2	3	1	1	3	2	1	3	1
Bulgaria	37	2	1	2	3	1	1	3	2	1	3	1
Chile	42	2	1	2	3	1	1	3	2	1	3	1
China	20	2	1	2	0	1	1	3	2	1	0	1
Colombia	37	2	1	2	3	1	1	2	2	1	3	1
Costa Rica	30	2	1	2	3	1	1	0	2	1	3	1
Croatia	39	2	1	0	3	1	1	3	2	1	3	1
Dom. Rep.	41	1	1	2	3	1	1	3	2	1	3	1
Ecuador	30	2	1	0	3	1	1	0	2	1	3	1
Egypt	34	2	0	1	3	1	1	3	2	1	0	1
Gabon	15	1	0	0	0	1	0	0	2	1	0	1
Ghana	13	1	1	1	3	1	1	0	2	1	0	0
Hungary	39	2	1	2	3	1	1	3	2	1	3	1
Indonesia	35	2	1	2	3	1	1	3	2	1	3	1
Kenya	28	1	1	1	3	1	1	0	2	1	3	1
Korea, South	32	2	1	2	3	1	1	3	0	1	3	1
Lebanon	26	1	1	0	1.5	0	1	0	2	1	3	1
Malaysia	29	2	1	2	3	1	1	0	2	1	3	1
Mexico	42	2	1	2	3	1	1	3	2	1	3	1
Morocco	38	2	1	2	3	1	1	0	2	1	3	1
Nigeria	12	1	1	0	1	0	1	0	0	1	1	1
Pakistan	30	1	1	0	3	1	1	3	2	1	3	1
Panama	23.5	1	0	1	0	1	1	0	1	1	1.5	1
Peru	42	2	1	2	3	1	1	3	2	1	3	1
Philippines	33	2	1	2	3	1	0	0	2	1	3	1
Poland	38	2	1	1	3	1	1	3	2	1	3	1
Romania	39	2	1	2	1.5	1	1	3	2	1	1.5	1
Russia	39	2	1	1	3	1	1	3	2	1	3	1
South Africa	41	2	1	2	0	1	1	3	2	1	3	1
Tanzania	9	1	1	0	1	0	1	0	0	1	1	1
Thailand	37	2	1	2	3	1	0	3	2	1	3	1
Tunisia	29	2	1	2	3	1	1	0	2	1	3	1
Turkey	44	2	1	2	3	1	1	3	2	1	3	1
Ukraine	32	2	1	2	3	1	1	0	2	1	3	1
Uruguay	39	2	1	2	3	1	1	2	2	1	3	1
Vietnam	2	1	0	0	0	0	0	0	0	0	0	0
Zambia	10	1	1	0	3	1	1	0	0	0	1	0

* Countries subscribing to the IMF Data Dissemination Standard (SDDS).
** Central Government Operations (CGO):
Timeliness: 1 month after the end of the reference period
Periodicity: Monthly
MGFS 1986: Identifies countries that use classification of fiscal statistics according to the IMF's *A Manual of Government Finance Statistics*, 1986 (MGFS 1986).
GFSM 2001: Identifies if government accounting follows the definition and classification of the IMF's *Government Finance Statistics Manual*, 2001 (GFSM 2001).

*** Central Government Debt (CGD):
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly
Amortization Schedule for CGD: Preferably, dissemination of government debt service presented at least annually for a period of at least five years from the effective date of the debt data.
Annual data should be supplemented with quarterly data at least for the year immediately ahead.

TABLE 3
Assessment of Data Dissemination Practices (Prioritized) - continued

Central Government Debt (CGD)***				External Debt****								
Contingent Liabilities Availability	Term Break-down Done by Original Maturity	Amortiza-tion Schedule Dissemi-nated at least Every 3 Months	Amortiza-tion Schedule Presents Contingent Liabilities	External Debt Timeli-ness	External Debt Periodicity	Time Series Availability	Resident's Holdings of Public Debt Issued Internationally	Non-Resident's Holdings of Public Debt Issued Domestically	Non-Resident's Holdings of Private Debt Issued Domestically	Amortiza-tion Schedule Dissemi-nated at least Every 6 Months	Amortiza-tion Schedule Presents Private and Public Sector Separation	
2	1	3	2	2	1	3	1	2	2	3	2	
												Country
0	0	0	0	2	1	3	0	0	0	0	0	Belize
2	1	3	2	2	1	3	1	2	2	3	2	Brazil
2	1	3	0	2	1	3	1	2	2	0	0	Bulgaria
2	1	3	2	2	1	3	1	0	2	3	2	Chile
0	1	0	0	2	1	3	0	0	0	0	0	China
2	1	3	1	2	1	3	1	2	2	0	0	Colombia
2	1	1	2	2	1	3	1	0	0	0	0	Costa Rica
2	1	3	0	2	1	3	0	2	2	3	2	Croatia
2	1	3	2	2	1	3	1	2	2	3	0	Dom. Rep.
2	1	3	0	1	1	3	0	2	2	0	0	Ecuador
2	1	3	0	2	1	3	1	0	0	3	2	Egypt
0	1	3	0	2	1	0	0	0	2	0	0	Gabon
0	1	0	0	0	1	0	0	0	0	0	0	Ghana
2	1	3	0	2	1	3	1	2	2	2	0	Hungary
1	1	1	0	2	1	3	0	2	2	0	0	Indonesia
2	0	0	0	2	1	3	1	0	2	0	2	Kenya
2	1	3	0	2	1	3	0	2	0	0	0	Korea, South
0	1	3	0	2	1	3	1	0	0	1.5	2	Lebanon
2	1	0	0	2	1	3	0	2	1	0	0	Malaysia
2	1	3	0	2	1	3	1	2	2	3	2	Mexico
2	1	3	2	2	1	3	0	2	2	3	0	Morocco
0	0	3	0	0	1	1	0	0	0	0	0	Nigeria
2	1	0	0	2	1	3	0	2	2	0	0	Pakistan
2	1	3	0	2	1	3	0	0	0	3	0	Panama
2	1	3	0	2	1	3	1	2	2	3	2	Peru
2	1	3	0	2	1	3	1	2	2	0	0	Philippines
2	1	3	0	2	1	3	1	2	2	0	2	Poland
2	1	3	2	2	1	3	1	2	2	3	0	Romania
0	1	3	0	2	1	3	1	2	2	3	2	Russia
2	1	3	2	2	1	3	1	2	2	3	2	South Africa
0	0	0	0	0	1	1	0	0	0	0	0	Tanzania
2	1	0	0	2	1	3	0	2	2	3	2	Thailand
2	1	0	0	1	1	3	0	2	2	0	0	Tunisia
2	1	3	2	2	1	3	1	2	2	3	2	Turkey
2	1	2	0	2	1	3	0	2	2	0	0	Ukraine
2	1	3	0	2	1	3	1	2	2	3	0	Uruguay
0	0	0	0	1	0	0	0	0	0	0	0	Vietnam
0	0	0	0	0	0	0	0	2	0	0	0	Zambia

Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly
**** External Debt:
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly
Amortization Schedule for External Debt:
It is important that data cover both public and private sector debt.

Preferably, amortization payments presented at least annually for a period of at least five years from the effective date of the debt data.
Annual data should be supplemented with quarterly data at least for the year immediately ahead.
Timeliness: 1 quarter after the end of the reference period
Periodicity: Quarterly

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APPENDIX A.
EVALUATION CRITERIA FOR INVESTOR RELATIONS PROGRAMS

Described in this section are the 20 criteria that have been used to assess IR practices in this report, as well as the three key categories of data dissemination.

1. Presence of institutionalized IR activities

A formal Investor Relations Program (IRP) is characterized by an Investor Relations Office (IRO), designated IR officers, and an IR website. The office may be an independent entity or a department within another financial agency, such as the Ministry of Finance (or Treasury), or Central Bank. Most IROs maintain a separate website; however, in some cases IRO's share a website with another government agency. In some cases a country can have institutionalized IR activities without having a formal IRP. The country must have these functions built into the existing framework of the Central Bank, Ministry of Finance, or government agency responsible for debt management. There must be staff responsible for communication with investors who fulfill these duties and are recognized by investors as reliable and accessible.

2. IR staff identifiable and reachable through website(s)

One or more official websites must contain contact information of at least one individual identified as an IR staff member and available to receive investor questions or comments. The information should be clearly marked and easy to access. The appropriate official may be either a designated IR officer or responsible for investor communications as one of his or her core duties. General information for webmasters or staff listings of those who are not responsible for IR functions does not meet this criterion.

3. Central bank and government agency websites available in English

An IRO website in English is sufficient to meet this criterion. If there is not an IRO website, both the Central Bank and Ministry of Finance (or Treasury) websites must be in English.

Ideally, the statistics agency website and other additional government agency websites will be published in English, but it is not a requirement to meet this criterion.

4. Reciprocal links to IRO, Central Bank, and Ministry of Finance websites

Key websites include the IRO, Central Bank, and Ministry of Finance (or Treasury) websites. This criterion is not met if one agency website contains links, but others do not reciprocate.

Additional links to government agencies such as the debt management agency or national statistics office are recommended but not required to meet this criterion.

5. Investors able to register for website subscription

Investors can register on the IRO, Central Bank, or Ministry of Finance (or Treasury) website to subscribe to the website and receive relevant information such as data releases, policy information, or notices about roadshows or conference calls on a regular basis via email.

6. Country subscribes to SDDS

The country must subscribe to the IMF's SDDS, which was established by the IMF to guide members that have or that might seek access to international capital markets in the provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination: (1) data coverage, periodicity, and timeliness; (2) access by the public; (3) integrity of the disseminated data; and (4) quality of the disseminated data. For each dimension, the SDDS prescribes two to four monitorable elements—good practices that can be observed, or monitored, by the users of statistics.

7. Effective data transparency of key elements

Country authorities must disseminate key data related to central government operations, central

government debt, and external debt in a timely manner. This criterion is directly associated with the performance in the IIF data transparency index. The effectiveness of dissemination has been evaluated on a 3-point scale, with the maximum points awarded to countries with the highest levels of data transparency.

8. Macroeconomic data presented in user-friendly format

To qualify for this criterion, data are presented in a format that can be easily manipulated in Microsoft Excel. Some data should be available in time series. Policy information is provided on one or more websites in a clear, succinct format that delivers the central points that authorities are seeking to convey. Countries must provide data and policy information on one or more websites in English.

9. Historic policy information available

Investors are able to locate recent retrospective policy information for various areas of data per the IMF's SDDS.

10. Forward-looking policy information available

Investors are able to identify the country's economic policy planning through the presentation of comprehensive economic outlook reports for the relevant period. This includes the identification of monetary and fiscal policy objectives, as well as assumptions of the economic variables relevant for the individual country. The presentation of the country's debt management strategy is encouraged but not required to meet this criterion.

11. Structural information available

Information on structural factors (e.g., legal, regulatory, governance frameworks) supported by the data must be available as appropriate.

12. Active investor contact list

Country authorities maintain a list of investors to meet this criterion. Ideally, authorities update and maintain their investor contact lists at least twice annually and the officials from one or more government agencies should distribute policy and macroeconomic information to the investor list via email at least every two weeks.

13. Web-based communication with investors

Authorities respond to investor queries or concerns via e-mail or via an HTML-based feedback mechanism. To meet this criterion, either a general email box, specific email address or HTML- based form must be provided on the IRO, Central Bank, or Ministry of Finance (or Treasury) websites. Responses should be received within 36 hours to fulfill this criterion.

14. Bilateral meetings with investors

Country authorities conduct bilateral meetings with investors on a regular basis. The meetings may be held domestically or abroad.

15. Non-deal roadshow(s)

Country authorities must conduct one or more non-deal roadshows annually.

16. Investor conference call(s)

Country authorities conduct regular investor conference calls on key economic data and policies at least every quarter. To qualify for this criterion, the call must be public. Investors should be invited via email and/or an announcement on a government agency website. The call should be led by the IRO head and senior department heads, with involvement of senior policymakers such as the Undersecretary of Finance or Deputy Governor of the Central Bank as needed. "Closed" calls, meaning that only a small group of investors is invited and the date and time of the call is not published on the website, do not qualify for this criteria.

17. Archives of investor presentations and/or conference call related materials available on websites

Relevant official websites must contain an archive of materials presented to investors at roadshows, conference calls, or other meetings or seminars. Materials may include conference call replay and associated documents, investor presentations, and transcripts of speeches by key policymakers.

18. Investor feedback reflected in policy decisions

To fulfill this criterion, senior policymakers should have taken market input into account in their policy decisions. This criterion has been assessed on the basis of survey responses by country authorities and does not account for investor perceptions of whether feedback has been reflected in policy decisions.

19. Senior policymakers' participation in IR activities

Participation by senior policymakers (Minister, Central Bank Governor, or one of their deputies) is necessary when appropriate. Increasing involvement of senior policymakers is particularly significant at times of diminishing market confidence. To meet this criterion senior policymakers must be involved in at least two of the following three activities: (1) conference calls, (2) bilateral meetings, and (3) non-deal roadshows.

20. Regular self-assessment of IR activities

Country authorities must conduct regular self-assessments of their IR efforts on an annual basis to identify successes and gaps. The self-assessment may be conducted through a survey distributed to the entire investor base or to a representative sample of the investor base.

DATA DISSEMINATION PRACTICES

We have assessed countries on the basis of 23 elements of data dissemination. In addition to a country's subscription to the SDDS or General Data Dissemination System (GDDS), these elements capture six categories in the area of central government operations, eight categories in the area of central government debt, and eight categories in the external debt area. One critical area not covered in this report is financial sector information. Despite much progress—especially by the IMF and the World Bank—to assess financial sector vulnerabilities through Financial Sector Assessment Programs (FSAPs), few emerging markets have reporting systems in place that would allow regular dissemination of key financial sector indicators to the marketplace. At the same time, investors have expressed concern about the cross country comparability of data, for example, due to a lack of uniform definition of key data. Therefore, we have not attempted to capture data release in this important area.

Central government operations

Elements of timeliness and periodicity have been evaluated against the prescribed and encouraged elements set by the SDDS and IIF standards for central government operations. Special emphasis has been placed on compliance with encouraged data provision in this area.

With the introduction of the IMF's Government Finance Statistics Manual in 2001 (GFSM 2001), countries have gradually incorporated an accrual- based reporting system for the presentation of central government operations data. However, this methodology is significantly more time consuming, and progress has been modest. Moreover, the statistical expertise varies across countries. In our assessments, we have documented the progress toward the adoption of the GFSM 2001.

We also have identified countries that have adopted a formal process toward implementation.

Central government debt

Individual assessments describe the current practices for the release of central government debt data assessed against the prescribed and encouraged elements of the SDDS and IIF standards for central government debt. In addition, we have placed special emphasis on data dissemination practices for government debt service projections. The IMF and IIF standards encourage quarterly reporting of

interest and amortization on medium- and long-term debt for the next four quarters and then annually thereafter. Similarly, reporting of data on short-term debt falling due on a quarterly basis is encouraged.

We have identified instances in which amortization schedules are presented in a timely fashion, either as part of a particular report or in a section of the fiscal authority's website. Whenever the information is not presented in periodic publications available to the public, we have benefited from direct consultation with agencies involved in the compilation of fiscal statistics. Indeed, several countries are ready to provide the calendar of future debt payments upon request.

External debt

Disclosure of external debt data can be evaluated based on the criteria established by the IMF's SDDS and IIF data standards. Most countries covered in this exercise follow the template set by the SDDS with three levels of disaggregation: (1) by institutional sector, (2) by short-term and long-term maturities on an original maturity basis, and (3) by instrument. We also have reviewed the dissemination practices for the provision of more comprehensive and timely information in areas that are not prescribed by those standards, including the availability of debt amortization schedules, the relevant breakdowns by institutional sector, and the timely availability of those schedules.

In the case of external debt amortization schedules, our assessment of dissemination practices shows that Central Banks usually prepare and release this information. However, provision of central government debt data varies considerably across countries; in some cases, analysts will search hard to locate the schedule. Also, countries rarely meet the IIF's encouraged element of providing quarterly data for at least the immediate 12-month period.

Some data categories, which are neither prescribed nor encouraged by the IMF's SDDS, are nevertheless provided on an ad hoc basis. For example, ratings agencies often use external debt ratios as indicators of debt sustainability. We have identified cases in which countries disclose this information on an ad hoc basis outside of the SDDS framework.

Additional aspects explored in the individual country assessments include the identification of resident holdings of public debt issued internationally, the non-resident holdings of public debt issued domestically, and the non-resident holdings of private debt issued domestically.

APPENDIX B.
DIFFERENCES BETWEEN INVESTOR RELATIONS OFFICES AND INVESTMENT PROMOTION AGENCIES

Investment Promotion Agencies (IPAs) and Investor Relations Offices (IROs) share many elements, but are unique in purpose. Proactive investor relations (IR) practices by an IRO support investment in the public sector through the management of sovereign debt instruments, while IPAs promote private sector investment. One cannot be viewed as a substitute for the other; due to their unique approach and goals, it is recommended that IROs and IPAs function separately.

While they are both government agencies designed to provide information to investors, the information they provide and the investors they target are quite different. Both convey targeted information to prospective investors via websites and in response to investment inquiries.

IPAs help to facilitate foreign direct investment (FDI) by advertising investment opportunities to multinational corporations interested in making overseas investments. IPAs help match foreign private companies and local private companies. Operationally, IPAs utilize traditional marketing and advertising techniques such as slogans and branding.

In contrast, IROs are defined by their straightforward approach. IROs can be located within the Ministry of Finance or the Central Bank. If a country does not have an institutionalized IRO, the function of communicating with investors is typically carried out by the debt management office or the government agency responsible for sovereign debt management. IROs are designed to be an institutionalized communication channel between sovereign debt issuers and investors. It is important that the information conveyed to investors be delivered directly by government officials as opposed to third-party analysts. The purpose is to establish open two-way communication that promotes trust between the policymakers and investors.

On a day-to-day basis, IROs facilitate the communication between investors and country authorities. In addition, IROs play a broader role in increasing the stability of the financial system. The financial crises that have occurred over the past decade have galvanized actions by the international financial community to limit the severity and frequency of such crises, as well as to bolster the financial system more broadly. IROs have proven to be important pillars for helping avoid crises and are also crucial building blocks for a more effective approach to managing them.

An increasing number of emerging market authorities and market participants agree that IR programs are proven vehicles for advancing dialogue with investors, building on the delivery of data on key economic variables, and improving financial policies and performance. Regular, proactive strategies of IR programs enable country authorities to understand and communicate more effectively with their investor base, address concerns or questions, and shape market-informed policies.

Regular interaction with key officials regarding economic data, financial policies, and economic performance enables investors to make sound lending and investment decisions and provide feedback to country authorities. Such programs can also help authorities navigate through turbulent periods of market sentiment. When market conditions deteriorate, IROs allow policymakers to distinguish themselves within their asset class. Conversely, IROs strengthen the ability of investors to assess and manage risks.

Press and IR

The press office and IRO need to coordinate their activities because the message of both of these offices has to be consistent. A press office and an IRO can benefit from working closely together, as a press release from the press office may also be circulated by the IRO. A press release issued by the press office is not a substitute for IR. Sophisticated investors require a more detailed explanation of recent developments and policies. Following a press release, it is important for the IRO to be prepared to provide more detailed information on request.

Several authorities have explored co-mingling press and IR functions. Press and IR should be kept separate as the job of the IRO is to establish two-way communication with investors. Press officers deliver information in only one direction and do not need to be tuned into the market. The scope of a press office is far-reaching, while the focus of an IRO is specific to debt investors.

ANNEX I. THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING*[1]

PREFACE

Since the mid-1990s, sovereign debtors and their private sector creditors have generally sought to put in place policies and procedures likely to promote and maintain sustained market access.

Most issuers have recognized the importance of implementing sound economic and financial policies (including monetary, exchange rate and debt management policies), as well as developing domestic public support for those policies. Equally important are policies that preserve the rule of law and, in particular, maintain the sanctity of contracts, as well as other measures needed to advance an open investment environment. In maintaining sound policies, debtors have been guided by internationally accepted standards and codes to strengthen financial stability and to enhance transparency by providing timely economic and financial data.

For their part, most creditors make investment and lending decisions on their own merit, accept full responsibility for these decisions, and do not expect official sector bailouts. As part of this process, creditors have sought to implement good practices in risk management, including thorough analysis of a borrowing country's implementation of sound economic and financial policies, as well as adherence to key standards and codes.

More recently in a significant step toward strengthening the resilience of the system, most debtors and their creditors have opted for the voluntary inclusion of collective action clauses (CACs) in international bond terms and conditions. These bonds have provided for amending payment terms through supermajority voting and for limiting precipitous legal actions through higher acceleration hurdles; a few bonds have also included provisions for debtor-creditor engagement.

In a growing number of cases, both issuers and creditors have pursued effective, two-way communication through robust investor relations programs (IRPs). This communication includes information and data on the issuer's key economic and financial policies and performance, with creditors providing feedback.

These *Principles* outline actions and behaviour of private sector creditors and emerging market sovereign debtors to promote and maintain stable private capital flows to emerging market economies in the context of growth and financial stability. They are based on extensive and broadly based discussions among private creditors and sovereign emerging market issuers. Because individual cases will invariably involve different circumstances, the *Principles* should be applied flexibly on a case-by-case basis, and are strictly voluntary. Accordingly, no party is legally bound by any of the provisions of these *Principles*, whether as a matter of contract, comity, or otherwise. Moreover, nothing in these *Principles* (or in any party's endorsement thereof) shall be deemed to constitute a waiver of any such party's legal rights.

The *Principles* build on the progress since the mid-1990s to identify effective measures in order to shore up crisis prevention and encourage their continued implementation. The *Principles* promote early crisis containment through information disclosure, debtor-creditor consultations, and course correction before problems become unmanageable. They also support creditor actions that can help to minimize market contagion. In cases where the debtor can no longer fulfil its payment obligations, the *Principles* outline a process for market-based restructuring based on negotiations between the borrowing country and its creditors that involve shared information, are conducted in good faith, and seek to achieve a fair

[1]During the annual meeting of the *Group of Trustees* on October 10, 2010, the Trustees agreed to broaden the applicability of the *Principles* to go beyond the traditional emerging market sovereign issuers to encompass on a voluntary basis all sovereign issuers, as well as cases of debt restructuring in which the state plays a major role in influencing the legal and other key parameters of debt restructuring, based on the recommendation of a PCG Working Group on the Applicability of the *Principles*. The *Group of Trustees* also agreed to drop the reference to emerging markets from the title of the *Principles*. For more details, see Annex II of the October 2010 *Report of the PCG on the 2010 Implementation of the Principles for Stable Capital Flows and Fair Debt Restructuring*.

outcome for all parties. Such a process maximizes the likelihood that market access will be restored as soon as possible under sustainable macroeconomic conditions.

PRINCIPLES

1. Transparency and Timely Flow of Information

General disclosure practice. Issuers should ensure through disclosure of relevant information that creditors are in a position to make informed assessments of their economic and financial situation, including overall levels of indebtedness. Such disclosure is important in order to establish a common understanding of the country's balance of payments outlook and to allow creditors to make informed and prudent risk management and investment decisions.

Specific disclosure practice. In the context of a restructuring, the debtor should disclose to all affected creditors maturity and interest rate structures of all external financial sovereign obligations, including the proposed treatment of such obligations; and the central aspects, including assumptions, of its economic policies and programs. The debtor should inform creditors regarding agreements reached with other creditors, the IMF, and the Paris Club, as appropriate. Confidentiality of material non-public information must be ensured.

2. Close Debtor-Creditor Dialogue and Cooperation to Avoid Restructuring

Regular dialogue. Debtors and creditors should engage in a regular dialogue regarding information and data on key economic and financial policies and performance. IRPs have emerged as a proven vehicle, and countries should implement such programs.

Best practices for investor relations. Communication techniques should include creating an investor relations office with a qualified core staff; disseminating accurate and timely data/information through e-mail or investor relations websites; establishing formal channels of communication between policymakers and investors through bilateral meetings, investor teleconferences, and videoconferences; and maintaining a comprehensive list of contact information for relevant market participants. Investors are encouraged to participate in IRPs and provide feedback on such information and data. Debtors and investors should collaborate to refine these techniques over time.

Policy action and feedback. Borrowing countries should implement economic and financial policies, including structural measures, so as to ensure macroeconomic stability, promote sustainable economic growth, and thereby bolster market confidence. It is vital that political support for these measures be developed. Countries should closely monitor the effectiveness of policies, strengthen them as necessary, and seek investor feedback as warranted.

Consultations: Building on IRPs, debtors should consult with creditors to explore alternative market-based approaches to address debt-service problems before default occurs. The goal of such consultations is to avoid misunderstanding about policy directions, build market confidence on the strength of policy measures, and support continuous market access. Consultations will not focus on specific financial transactions, and their precise format will depend on existing circumstances.

In any event, participants must not take advantage of such consultations to gain a commercial benefit for trading purposes. Applicable legal restrictions regarding material non-public information must be observed.

Creditors' support of debtor reform efforts. As efforts to consult with investors and to upgrade policies take hold, the creditor community should consider, to the extent consistent with their business objectives and legal obligations, appropriate requests for the voluntary, temporary maintenance of trade and inter-bank advances, and/or the rollover of short-term maturities on public and private sector obligations, if necessary to support a borrowing country's efforts to avoid a broad debt restructuring. The prospects of a favorable response to such requests will be enhanced by the commitment to a strong adjustment program, but will also depend in part on continued interest payments on inter-bank

advances and continued service of other debt.

3. Good-Faith Actions

Voluntary, good-faith process. When a restructuring becomes inevitable, debtors and creditors should engage in a restructuring process that is voluntary and based on good faith. Such a process is based on sound policies that seek to establish conditions for renewed market access on a timely basis, viable macroeconomic growth, and balance of payments sustainability in the medium term. Debtors and creditors agree that timely good faith negotiations are the preferred course of action toward these goals, potentially limiting litigation risk. They should cooperate in order to identify the best means for, placing the country on a sustainable balance of payments path, while also preserving and protecting asset values during the restructuring process. In this context, debtors and creditors strongly encourage the IMF to implement fully its policies for lending into arrears to private creditors where IMF programs are in place, including the criteria for good-faith negotiations.

Sanctity of contracts. Subject to their voluntary amendment, contractual rights must remain fully enforceable to ensure the integrity of the negotiating and restructuring process. In cases where program negotiations with the IMF are underway or a program is in place, debtors and creditors rely upon the IMF in its traditional role as guardian of the system to support the debtor's reasonable efforts to avoid default.

Vehicles for restructurings. The appropriate format and role of negotiation vehicles such as a creditor committee or another representative creditor group (hereafter referred to as a "creditor committee") should be determined flexibly and on a case-by-case basis. Structured, early negotiations with a creditor committee should take place when a default has occurred in order to ensure that the terms for amending existing debt contracts and/or a voluntary debt exchange are consistent with market realities and the restoration of growth and market access and take into account existing CAC provisions. If a creditor committee is formed, both creditors and the debtor should cooperate in its establishment.

Creditor committee policies and practices. If a creditor committee is formed, it should adopt rules and practices, including appropriate mechanisms to protect material non-public information; coordinate across affected instruments and with other affected creditor classes with a view to form a single committee; be a forum for the debtor to present its economic program and financing proposals; collect and analyze economic data; gather, evaluate, and disseminate creditor input on financing proposals; and generally act as a communication link between the debtor and the creditor community. Past experience also demonstrates that, when a creditor committee has been formed, debtors have borne the reasonable costs of a single creditor committee. Creditors and debtors agree jointly what constitute reasonable costs based on generally accepted practices.

Debtor and creditor actions during restructuring. Debtors should resume, to the extent feasible, partial debt service as a sign of good faith and resume full payment of principal and interest as conditions allow. Debtors and creditors recognize in that context that typically during a restructuring, trade lines are fully serviced and maintained. Debtors should avoid additional exchange controls on outflows, except for temporary periods in exceptional circumstances. Regardless of the specific restructuring mechanics and procedures used (i.e. amendment of existing instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced. Debtors should retain legal and/or financial advisors.

4. Fair Treatment

Avoiding unfair discrimination among affected creditors. The borrowing country should avoid unfair discrimination among affected creditors. This includes seeking rescheduling from all official bilateral creditors. In line with general practice, such credits as short-term trade related facilities and interbank advances should be excluded from the restructuring agreement and treated separately if needed.

Fairness of voting. Bonds, loans, and other financial instruments owned or controlled by the sovereign should not influence the outcome of a vote among creditors on a restructuring.

ANNEX II. *ADDENDUM* TO THE *PRINCIPLES FOR STABLE CAPITAL FLOWS AND FAIR DEBT RESTRUCTURING*[1]

This *Addendum* presents the recommendations of the *Joint Public-Private Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution*, endorsed by the *Group of Trustees* of the *Principles* on October 14, 2012, at its 2012 Annual Meeting in Tokyo. The *Joint Committee* was set up under the auspices of the Co-Chairs of the *Group of Trustees* in March 2012 to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere, draw appropriate lessons, and make recommendations on the strengthening of the existing framework for sovereign debt crisis prevention and resolution as embodied in the guidelines of the *Principles for Stable Capital Flows and Fair Debt Restructuring*. The recommendations included in the *Addendum* complement the *Principles* and provide amplification of the practical guidance for the implementation of the guidelines underlying the *Principles* to make them more practically relevant to the circumstances faced by mature market countries, including those that are members of currency unions.

1. Overall Assessment

The guidelines underlying the *Principles for Stable Capital Flows and Fair Debt Restructuring* remain an appropriate, relevant, and effective framework for sovereign debt crisis prevention and resolution. Their fundamental emphasis on sound policies and data and policy transparency by debtors is of critical importance in crisis prevention. Moreover, the underlying guidelines for voluntary, cooperative, market-based procedures for debtor-creditor dialogue and good-faith debt restructuring negotiations remain an essential cornerstone of sovereign debt crisis management and resolution and should continue to guide the interactions between sovereign issuers and their creditors. Such a cooperative approach would facilitate an early restoration of market access, which is of critical importance in achieving debt sustainability over time, and allow the official sector to gradually reduce its exceptional financial assistance to the countries under official sector-supported reform programs.

2. Data and Policy Transparency for Crisis Prevention

Sovereign debtors should pursue sound fiscal and growth-enhancing structural policies, consistent with macroeconomic and financial stability and public debt sustainability.

Sovereign debt issuers should ensure that they release on a timely basis comprehensive relevant data and other information related *inter alia* to their fiscal developments and debt positions (including, when appropriate, contingent liabilities) and on current and future policy plans. These data should be consistent with established accepted standards and norms (i.e. budget data should be released also on an accrual basis, not only cash basis) and verified by authorized domestic and regional agencies, especially with regard to their accuracy, comprehensiveness, and comparability over time.

Effective sovereign debt crisis prevention is a shared responsibility that requires—besides data and policy transparency and open dialogue with creditors by the sovereign debtors—sustained surveillance efforts by regional and international institutions and private sector groups, actions by regulatory agencies, accounting and other international standard setters, as well as vigilance and enhanced risk management by private creditors and market participants in general.

The effectiveness and timeliness of surveillance by regional and international institutions of the

[1]The *Addendum* to the *Principles* outlines the recommendation of the *Joint Public-Private Committee on the Strengthening of the Framework for Sovereign Debt Crisis Prevention and Resolution*, set up in March 2012 under the aegis of the four Co-Chairs of the *Group of Trustees* and the two Co-Chairs of the *IIF Special Committee on Financial Crisis Prevention and Resolution* to assess the recent experience with sovereign debt crisis prevention, management, and resolution in the Euro Area and elsewhere; draw appropriate lessons; and make recommendations for the strengthening of the existing framework for sovereign debt crisis prevention and resolution, as embodied in the guidelines of the *Principles*. The *Group of Trustees* endorsed the *Addendum* to the *Principles* at its Annual Meeting on October 14, 2012, in Tokyo, Japan. For the complete *Joint Committee* report and its recommendations, please refer to the 2012 *Report on Implementation by the Principles Consultative Group*.

consistency between policy plans and actual execution and of national policies with regional commitments and undertakings for countries that are members of currency unions are critical for promoting sustainable policies and market confidence. Clarity and transparency of information on actual economic trends and prospects are essential for facilitating effective risk management by market participants and efficient functioning of sovereign debt markets.

Private creditors and market participants are responsible for formulating accurate and appropriate assessments of underlying trends in market risks, and the credit and sovereign risks of individual issuers, thus ensuring a realistic pricing of sovereign debt instruments. In this context, private creditors and market participants should undertake their own due diligence, drawing *inter alia* on all available information from the sovereign issuers themselves and the assessments by regional and international financial institutions. The assessment of current economic and financial developments and the identification of underlying or emerging risks by private sector groups such as the IIF's *Market Monitoring Group* can also play a useful and constructive role in this process.

Regulatory agencies should take care in setting capital and other requirements for covered financial institutions to avoid distortions in market signals and biasing risk management practices.

Responsible and realistic assessments and timely analysis by ratings agencies can also provide useful complementary information to market participants, investors, and issuers and enhance crisis prevention.

3. Close Debtor-Creditor Dialogue and Cooperation for Crisis Prevention

Mature market country issuers should consider implementing the best practices for investor relations that have evolved. The adherence of emerging market borrowers to these best practices are reviewed annually by the IIF and summarized in the annual Implementation Report of the *Principles* issued by the *Principles Consultative Group*.

Enhancement of investor relations under Investor Relations Programs facilitates timely data and policy transparency and a regular dialogue between sovereign issuers and their creditors and establishes an effective channel of communication and feedback. The experience over the past few years has demonstrated the value and contribution of IRPs in enhancing market confidence and maintaining market access even during periods of market tensions and turbulence.

Sovereign debt issuers in both mature and emerging market countries should incorporate in new bond issues, denominated in a foreign or a common regional currency, CACs with appropriate aggregation clauses, with comprehensive coverage of their terms and conditions in the bond documentation and easy access to this information by all investors. Issuers of domestic bonds denominated in local currency may also consider such arrangements. Appropriately designed aggregation clauses would allow bond holders across all outstanding issues of government securities to collectively decide on whether to accept potential offers from issuers to modify existing bond terms and conditions. The use of CACs inclusive of aggregation clauses can facilitate voluntary debt restructuring by reducing the chances of a small minority of bond holders acquiring blocking positions in a bond series and imposing demands for preferential treatment.

4. Good-Faith Actions in Cases of Debt Restructuring

(a) Voluntary Good-Faith Process

Good-faith negotiations remain the most effective framework for reaching voluntary debt restructuring agreements among sovereign debtors and their diversified private creditor community, particularly in the complex cases of mature market issuers that are members of currency unions. Such a framework has proved to be efficient in facilitating appropriate agreements on crisis resolution, while containing the adverse impact on market confidence and other disruptions and concerns caused by spillover and contagion risks.

Sovereign issuers and their creditors should strive to reach and effectively implement voluntary agreements on a timely basis to help minimize adverse market reactions and contagion effects. In this context, debtors and creditors should be cognizant of the potential adverse effects of the interaction between sovereign debt and capital markets, to the detriment of the interests of all parties. With the increased sophistication, integration, and complexity of capital markets, for both emerging market and mature economy countries, the interaction between developments in sovereign debt markets, changes in the regulatory framework and banking system practices give rise to major dynamics with significant implications for credit expansion, risk practices, market access by sovereign debtors, and macroeconomic developments.

The dynamics and incentives for debtors and issuers to engage in good-faith negotiations are strongly influenced by the existing accounting and regulatory standards and their interaction across types of financial institutions and jurisdictions. The standard-setting bodies responsible for accounting and supervision rules, as well as the interpretation bodies, should be cognizant of the need to minimize inconsistencies between accounting and supervision practices and conflicts across jurisdictions and types of covered financial institutions.

The early restoration of market access is of critical importance in achieving debt sustainability over time. Early re-accessing of capital markets at reasonable costs is also essential for allowing sovereign debtors to reduce and eliminate their reliance on exceptional IMF financing and financial support from their official bilateral partners, such as is the case under currency unions or regional arrangements.

(b) Debtor and Creditor Actions During Debt Restructuring

To facilitate good-faith negotiations, sovereign issuers, and regional institutions in case of regional arrangements, should engage in enhanced data and policy transparency and dialogue with their private creditors at an early stage, should a debt resolution become necessary. The early release of information on the scale of the adjustment needs and the range and scale of the envisaged corrective policies by the sovereign issuers themselves or in the context of adjustment programs supported by the IMF and/or regional institutions would help minimize adverse market reaction and contagion risks and facilitate continued or early resumption of market access. The sanctity of contracts should be respected. Modifications to these contracts should be avoided wherever possible as a matter of principle.

In the debt restructuring process, an early discussion is necessary between the representative private creditor committee and the sovereign debtor, in close consultation with the official sector, on the overall multi-year macroeconomic framework and objectives, including the broad fiscal policy targets and the underlying outlook for output growth and public debt under alternative assumptions on the debt restructuring. Such a discussion is important in facilitating an effective voluntary debt restructuring agreement on a fair burden sharing, thus promoting high private sector participation, restored market access, renewed output growth, and debt sustainability.

It should be recognized that the attainment of debt sustainability over time is a dynamic, complex process that depends critically on the quality and market credibility of actual and prospective adjustment policies undertaken by the debtor, the direction of macroeconomic policies, the terms and volume of financial support or debt relief provided by official and private creditors, and the prospects for the continuation or resumption of market access at reasonable terms. As such, the debt sustainability analysis entails judgments and assessments that are often not easily amenable to quantitative rules and that require revisions as macroeconomic parameters evolve. The contributions toward achieving debt sustainability by private creditors as well as other creditors should be considered simultaneously, with no one creditor group considered as a residual source of funding on an *ex ante* basis.

In this context, the IMF has a very important role to play by providing objective analysis and information on macroeconomic policies and prospects and on the sovereign debtor's medium-term funding needs, consistent with debt sustainability considerations.

(c) Creditor Committee Policies and Practices

Private creditors should organize themselves in a broadly based representative creditor committee as early as possible in the debt restructuring process, certainly before debt default, which should be avoided if possible. Sovereign issuers should interact and engage in negotiations with their private creditors through the representative creditor committee and should consult with the creditor committee as part of the process of fulfilling the requirement under IMF policy of lending to debtors in arrears to make good-faith efforts to reach understandings with their creditors. Such a framework would be more conducive to reaching a voluntary agreement on debt restructuring and facilitate market access.

Private creditors that are members of the creditor committee negotiating with the sovereign debtor should abide by established ethical standards and *inter alia* respect the confidentiality of any material non-public information that may become available during this process and notably commit not to use confidential information from the negotiations for trading purposes.

This process will be aided in cases of countries that require financial assistance from multiple official bilateral creditors, as is usually the case for countries that are members of currency unions, by the formulation of timely and effective procedures for reaching understandings on the scale, terms, and conditionality of any envisaged financial assistance from these creditors so as to facilitate the negotiations between the sovereign debtor and the private creditor committee.

In line with the evolving practice, the sovereign debtor would be expected to cover reasonable costs incurred by a single private creditor committee for the legal and financial advisor fees, consistent with agreed parameters.

(d) Tools for Debt Restructurings

Sovereign issuers and their creditors should introduce CACs and possibly other options to enhance the credit quality of the new debt instruments used under debt restructuring exercises so as to enhance the prospects for high voluntary creditor participation. Retroactive legal changes to unilaterally modify the terms and conditions of financial contracts may undermine the integrity of financial markets and the sanctity of contracts and should be avoided.

However, in exceptional cases and after a voluntary debt exchange agreement has been reached, such modifications of the governing legal framework to introduce a collective action mechanism on a timely basis with terms and thresholds consistent with market practices may be necessary in facilitating a voluntary debt exchange and achieving a fair outcome for all bond holders.

5. Fair and Comparable Treatment of All Creditors

Sovereign issuers should treat fairly and provide comparable treatment to all creditors so as to avoid discrimination against any individual or groups of creditors. No creditor or creditor group should be excluded *ex ante* from participating in debt restructuring. Any exceptions to this principle should be discussed and agreed to among all creditors on the basis of adequate justification. Broad creditor participation in debt restructuring operations is essential to ensure a fair burden sharing, including the impact of the provision of new financial assistance, as well as to avoid any new or intensify existing subordination of the claims by some classes of creditors.

Fair treatment of all creditors is in the interest of both issuers and creditors. It lessens the burden on all creditors and, by avoiding discrimination, encourages creditors to participate voluntarily in debt resolution and minimizes any adverse impact on the investor demand for existing or new issues of sovereign debt by the issuer undergoing debt restructuring or similar debtors in the region or fellow members of currency unions. Reduced demand for sovereign debt by private investors, and/or delayed resumption of market access by the sovereign debtor due to subordination concerns, increase the potential burden on official creditors and international or regional institutions to provide financial support to the adjusting country in larger volume and/or over a longer period of time than would otherwise be necessary.

ANNEX III. MEMBERS OF THE *GROUP OF TRUSTEES* OF THE *PRINCIPLES*

Co-Chairmen

Mr. François Villeroy de Galhau
Governor
Banque de France

Dr. Yi Gang
Governor
People's Bank of China

Dr. Axel A. Weber
Chairman, Board of Directors, *UBS Group AG*
Chairman, *IIF*

Members

Mr. Tom de Swaan
Chairman of the Supervisory Board
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Former Deputy Prime Minister, Korea

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General Manager
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Mr. Jaime Caruana
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And Former General Manager, *BIS*

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Former Governor, *Bank Negara Malaysia*

Mr. Fabio Panetta
Deputy Governor, and Member of the Governing Board
Bank of Italy

Mr. Jacques de Larosière
Honorary Governor, Banque de France
Former Managing Director, IMF

Mr. Jean-Claude Trichet
Honorary Governor, *Banque de France*
Former President, European Central Bank

Mr. Christian Noyer
Honorary Governor
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Mr. José Manuel González-Páramo
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Mr. Jean Lemierre
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BNP Paribas Group

Mr. Mario Marcel
Governor
Central Bank of Chile

Mr. Már Guđmundsson
Governor
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Mr. Jay Collins
Vice-Chairman, Corporate and Investment Banking
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Mr. Klaus-Peter Müller
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Mr. Walter Bayly
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Mr. Nicholas Brady
Chairman, *Darby Overseas Investments Ltd.*
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Mr. Peter Praet
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Mr. Caio Koch-Weser
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Mr. Paul A. Volcker
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Mr. Hans Humes
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Mr. Brian J. Porter
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ANNEX V. IIF BEST PRACTICES FOR INVESTOR RELATIONS[1]

This section expands on the best practices developed in the Institute of International Finance (IIF) Action Plan of 2002. The best practices build on the key elements of the 2002 list. A central feature of a successful investors relations program (IRP) is the country's direct communication with market participants. The "Strengthened Investor Relations Best Practices" highlights the importance of formal communication channels between countries' authorities and market participants. In the countries' efforts to formulate market-informed macroeconomic policies, IR provides the opportunity to obtain investors' feedback in the formulation of economic policies. The new best practices also stress the need for continuous self-assessment. These best practices incorporate the following elements:

IRO/IR Staff

The Investor Relations Office (IRO) is the first and formal point of contact between market participants and authorities. It is a "one-stop shop" through which authorities can provide investors relevant data and information from the diversity of official sources, and investors can access relevant policymakers and provide policy feedback. It is important to have a designated IR officer, or IRO; however, the location of the office is not important (i.e., within the Treasury, Central Bank, or Ministry of Finance).

The job of the IRO staff is a dynamic one. The staff:

- Facilitate two-way communication channels with investors through emails, conference calls, and the IR website.
- Brief senior policymakers about market feedback and concerns, overall market sentiment with respect to asset class and general global environment, and anticipated market reactions to policy changes under consideration.
- Disseminate relevant macroeconomic data and policy information (see below) to market participants and answer questions about the data, information, and other related issues.
- Coordinate access of data and information from various official institutions and develop a network of officers in various government agencies and the Central Bank who can answer investor queries.
- Coordinate access of market participants to senior policymakers.
- Coordinate internally the country's "message" and convey this message to investors.
- Present a coordinated and streamlined message and explain any changes in policies or data.
- Maintain credibility by acknowledging weaknesses in policies and the economic situation at investor briefings but should not serve as an advertising campaign for the government.

Both corporate and sovereign IR officials have identified proximity to senior policymakers as one of the most crucial aspects of an IRO. Commitment by senior policymakers at the highest level is crucial to the effective functioning of an IRO. At the same time, it is important that the IRO and its staff be insulated from changes in the political environment.

The core staff should have an understanding of market practices as well as economic policies and should be able to articulate those to both policymakers and investors. Regular contacts with investors also help the IRO staff develop a "fabric of trust" and anticipate and reduce vulnerability to shifts in market perception. In addition, regular use of outside market sources should enable IRO staff to gauge investor perceptions and shape an effective communication strategy. As investor confidence begins to slip, more direct involvement of senior policymakers in the IR process may be required.

IR Website

[1] The Strengthened Investor Relations Best Practices are presented in the report *Investor Relations: An Approach to Effective Communication and Enhanced Transparency – 2005 Assessment of Key Borrowing Countries*, published by the Institute of International Finance in December 2005.

All IRPs should have, as an essential component, a regularly updated, state-of-the-art website.

The IR website is a vehicle for providing relevant data and information to investors in a user-friendly format. It is a tool to most efficiently convey a country's policy objectives to the market with an option for seeking feedback and answering questions. It enables IRO staff to survey investors regarding future policy direction or to conduct self-assessments. To be effective, an IR website needs to present information simply and in a format that is well-organized, user-friendly, and easy to navigate. It should have the following components:

- Information on economic data and policies as defined below. These data should be in a format that can be manipulated by investors.
- Archived PowerPoint presentations or audio/video streaming of investor teleconferences or videoconferences.
- Links to websites for various official agencies and reciprocal links to their own website on those agencies' sites.
- Registration for investors who would like to be included in IR activities.
- Frequently asked questions (FAQs).
- Contact information for the IRO and relevant IR staff.

Dissemination of Macroeconomic Data and Policy Information

The IRO is responsible for coordinating and collecting market-relevant data and information to be disseminated to investors through the IR website or by email to an investor contact list. To be effective, the IR staff should execute this function using the following operating principles:

- **Timely and regular dissemination data releases and policy information.** Use a release calendar to notify the market of upcoming releases well in advance. This will help dispel market rumors that may emerge from lack of information.
- **Limited general information.** Rather, provide specific, tailored interpretations that give insights into the information. This is particularly important when the information is negative or during difficult circumstances arising from higher risk aversion by market participants or challenging domestic economic or political conditions.
- **Clear and user-friendly format**. Provide data in a Microsoft Excel format that can be manipulated, as opposed to providing PDF and Word formats. In addition, present data in a time series of at least two years, as opposed to just current data and previous period data. The highest level of "market-friendliness" is the ability for investors to specify parameters such as time period and currency to obtain tailor-made time series that can be downloaded into Excel. Quality data in categories most useful to the market are preferred over large quantities of data that are less useful. In terms of data provision, special efforts should be made regarding forward-looking information. The IRO should "defend" or explain forecasts provided in a timely manner. IROs should let investors know if there have been any changes in the technical definitions of data or revisions made to the data.

The following types of information—core statistics for fundamental economic analysis—should be disseminated regularly to investors through the IR website or to a comprehensive "investor list" via email notification:

- **Data on economic performance** based on the international data standards as they pertain to the International Monetary Fund's (IMF's) encouraged special data dissemination standard (SDDS). This requires timely provision of statistics of the real sector as well as of the fiscal, external, and financial sector statistics. These data should be supplemented as necessary by methodological notes. The IRO website should contain an indexed archive of the data or links to other government sites where the data are available.
- **Data for the 15 core indicators for financial sector soundness as identified by the IMF.** The IRO website also should contain an indexed archive of this information.
- **Forward-looking information on economic policies** such as budget projections, monetary policy targets, and structural factors (e.g., legal, regulatory, governance frameworks) supported by the data as appropriate. The IRO website also should contain an indexed archive of this information.

Additional Key Data

Market participants have highlighted the crucial importance of the availability of market-relevant data not currently prescribed by the SDDS but crucial for adequate economic assessment in three key areas: (1) central government operations, (2) central government debt, and (3) external debt. A detailed description of the encouraged and prescribed elements of these data is provided by the IMF and IIF standards.

- **Central government operations.** Tracking data for central government operations allows for a more timely analysis of a country's fiscal position than general government or public sector data.
- **Central government debt.** The assessment of debt sustainability is an integral feature of the country risk assessment. Disclosure of debt service schedules and currency breakdowns are needed to provide a more accurate picture of countries' future payment obligations. Countries also are encouraged to disseminate information that reflects liabilities of the central government in a comprehensive fashion and, where relevant, debt of other entities that is guaranteed by the central government. Disclosure of such information can help identify fiscal risks under different scenarios at an early stage.
- **External debt**. As demonstrated by previous crises, a country's debt profile can influence its resilience to external shocks. The availability of assets and liabilities of the private and public sector held by non-residents provides a picture of potential balance sheet vulnerabilities in domestic sectors. To carry out an adequate assessment of a country's international position, investors attach importance to the availability of non-resident holdings of private and public debt issued domestically as well as the resident holdings of external debt issued internationally.

IR Contact List

The IRO should develop and maintain a comprehensive list of contact information for investors, analysts, rating agencies, and other market participants who regularly track the country. This list should be supplemented with contact information for institutions that have key relationships with local financial institutions. The list should be maintained regularly and can be enhanced to target specific investors, if appropriate. Countries should maintain comprehensive contact lists so that they know, at any given time, who their investors are and so can evaluate how certain types of creditors will behave during times of vulnerability.

Feedback and Communication Channels

Feedback mechanisms are essential to foster two-way communication between investors and policymakers. Formal, regular channels should be created for responding to questions from investors, encouraging feedback about concerns, and communicating this information to key policymakers to enable them to make market-informed policy decisions.

These channels could be established through:

- Teleconferences or webcasts with investors.
- Bilateral meetings between investors and senior policymakers.
- Phone or email contacts via the IRO.
- Interactive deal/non-deal roadshows.

Teleconferences or Internet-based webcasts should be led by senior "decision makers" such as the undersecretary of finance or deputy governor of the Central Bank and can be moderated by the head of the IRO. Teleconferences/webcasts on key economic data and policies should be conducted on a quarterly basis, at a minimum. In addition, issue-oriented conference calls that are not part of the regular framework can help address questions and dispel rumors related to specific events or policy decisions.

Investors should be alerted about upcoming teleconferences/webcasts via email and should be provided with relevant information in advance to facilitate feedback and questions and to enable policymakers to

focus on key issues. Policymakers should understand and communicate in the "language" of the investor community. Presentations should be uncomplicated and "forward-looking." Teleconferences and webcasts should be recorded for replay, and any associated material provided in advance to investors should be archived on the IRO website. To provide a level playing field, policymakers should provide the same information to all investors.

Investors value face-to-face interaction with senior policymakers through bilateral meetings. They should be able to **directly contact IRO staff via email or phone** to ask specific questions or to arrange meetings with senior policymakers. If the IRO staff is unable to process the request directly, it should coordinate with counterparts in other government agencies, ensuring that it can respond to investors in a timely manner. Non-deal roadshows to key financial capitals (conducted on a semi-annual basis or as opportunities arise) also are an important tool to foster dialogue. High-level interactions become even more important when a country faces difficult times.

Times of Diminishing Market Confidence

Issuers who support the *Principles* agree that countries accustomed to dealing proactively with market participants will have a head start in stepping up the consultation process with market participants in response to signs of eroding market confidence. Such swings in market sentiment may be attributed to challenging economic and political prospects or contagion from developments in other emerging markets.

As market confidence begins to diminish, authorities should intensify consultations with market participants. IR staff can help deflect contagion by providing investors with a better understanding of policy goals and prospects, respond to investor inquiries, and in effect help investors differentiate among countries within the same asset class. IRO staff are capable of independently responding to contagion risk, in contrast to government polices put in place under challenging conditions that require the support of their authors. In cases where challenging domestic conditions exist, the involvement of senior policymakers in the IR process is essential to adding credibility to policies. Under these circumstances, policymakers at the most senior level should make exceptional efforts to help alleviate market uncertainty by explaining the rationale of economic measures undertaken and demonstrate their preparedness to take market feedback into account when formulating additional action. The frequency of economic data and policy information provided to investors should be maintained or intensified—not reduced.

Teleconferences or webcasts with investors should become more frequent and led directly by finance ministers, Central Bank governors, or other senior policy officials as necessary. In such circumstances, an appropriate tool for engaging in a direct dialogue with investors may be through interactive non-deal roadshows in key financial capitals. The roadshow should be conducted by senior policymakers from all appropriate official agencies.

Regular Self-Assessment

IROs should conduct annual assessments to ensure they are providing the best possible services to policymakers and investors, including providing timely, accurate, and relevant information, reaching all targeted investor groups, receiving and effectively processing feedback, and using the most optimal technology to reach out to investors. IRO staff can conduct self-assessments or use outside consultants such as the IIF's Sovereign Investor Relations Advisory Service (SIRAS). Investor surveys on the IRO website or to the investor contact list also would be useful. To be effective, IRO activities can be benchmarked against IIF IR best practices or other guideposts, such as corporate IRO best practices.

Press and IR

Several authorities have explored co-mingling press and IR functions in a single IRO. While the thrust of these functions is similar, as they both involve communicating with the external environment, the key differences between them provide convincing arguments that they should be kept separate.

- **Audience**. IR staff must deal daily with market participants who track a country's economic performance and policies on a regular basis. These investors and creditors are sophisticated in their

knowledge, and they demand specific detail about the environment and outlook for economic policies and data. The press, on the other hand, is more interested in “big-picture” information that would appeal to its own audience rather than in technical details.

- **Content**. Investors require market-relevant information or data on economic policies that conform to international standards, forward-looking information on economic policies such as budget projections and monetary policy targets, and information on legal and regulatory frameworks. This information must be tailored to reflect the different requirements of various investor groups, such as bondholders, in both domestic and international capital markets, as well as equity investors. Press content focuses more on broad issues related to economic policy or political developments that do not require technical explanation or a detailed understanding of policy formulation.
- **Staff**. The skill set of IR staff differs significantly from that of press relations staff. Most importantly, to effectively communicate with market participants, IR officers must be able to speak in the language of the market (i.e., have an in-depth technical understanding not only of a country’s economic performance and policies but also of how markets operate). They must be able to answer investor queries and provide market feedback to senior policymakers. While press relations staff must have a basic understanding of economic performance and policies, their skills should mostly be focused on public relations and dealing with press contacts, as well as “managing” both positive and negative political developments.

ANNEX VI.

Executive Summary—IIF BEST PRACTICES FOR FORMATION AND OPERATION OF CREDITOR COMMITTEES

I. Introduction

The best practices for efficient and effective debtor and creditor engagement, including the formation and operation of Creditor Committees are based on extensive discussions among members of the IIF's Sovereign Risk Management Committee and the Principles Consultative Group, including stakeholders representing both debtors and creditors. Additionally, these best practices have been broadly endorsed by the *Group of Trustees*. The Group of Trustees, as guardian of the *Principles for Stable Capital Flows and Fair Debt Restructuring,* consists of senior officials from both advanced and emerging market economies and senior bankers and investors involved in advanced and emerging markets finance, many of whom have participated in the formulation of the *Principles*. The *Principles* recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors and also in the early stages and during periods of diminished market access when debt restructuring or reprofiling is deemed unavoidable. In fact, the key advantage of Creditor Committees for debtors has been that endorsement of the terms of a debt restructuring by the Committee signals acceptability of the deal to the wider creditor community and ensures the support of a wider "critical mass" of creditors and investors. Such support can play a vital role in reaching the requisite majority voting thresholds required by collective action clauses in sovereign bond contracts and especially in the context of the aggregated CACs, published by ICMA in 2014, which the IIF supports, where a collection action mechanism is activated in a sovereign debt restructuring proposal.

The *Principles* provide general guidelines that lay the basis for a voluntary, good-faith debt restructuring process. Paramount among these guidelines is the notion of good-faith negotiations between a debtor and its creditors; the *Principles* put these two parties at the center of the negotiation process. The *Principles* recognize the sovereignty of the debtor while upholding the sanctity of contracts during debt restructurings.

II. Creditor Engagement Best Practice Principles

1. Initial Formation

The initiative of forming a Creditor Committee can be taken through various approaches: the debtor can ask for a Committee to be formed – this has occurred in a few cases; the debtor and its creditors and investors (hereafter called "the creditor community"[2]) agree to form a Committee – this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

In case multiple committees are formed thought should be given to whether it would be beneficial to form a single steering committee to interface directly with the debtor, particularly where the multiple committees represent substantially similar asset classes.

2. Cooperation and Trust

For the negotiations to proceed in an orderly manner, an element of trust must be developed between the debtor and the members of the Committee, as well as among Committee members themselves. Effective engagement requires the debtor, and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors. The issue of fees and potential endorsement of any proposal in due course should be discussed.

3. Diversity of the Creditor Community

The Committee should consist of creditors and investors who can reflect the interests of the range of

members of the creditor community affected in the negotiation process, encompassing, among other things, not only financial instruments and investment strategies but also regional differences. The Committee should hold or represent a substantial number of claims and include a diverse set of creditors and investors.

4. Speed of Process

Experience shows that delay may significantly increase the cost or risk the failure of a restructuring. There should be a presumption that speed is of the essence and this principle should guide all processes including internal coordination and discussions.

5. Confidentiality

Parties should agree on a protocol for managing confidential information including implementing Chinese Walls or similar measures to manage material non-public or confidential information that is shared in the context of a restructuring negotiation.

IIF BEST PRACTICES FOR FORMATION AND OPERATION OF CREDITOR COMMITTEES

I. INTRODUCTION

The best practices for the formation and operation of Creditor Committees are based on extensive discussions among members of the IIF's Sovereign Risk Management Committee and the Principles Consultative Group. Additionally, these best practices have been broadly endorsed by the Group of Trustees. The Group of Trustees, as guardian of the *Principles for Stable Capital Flows and Fair Debt Restructuring*, consists of senior officials from both advanced and emerging market economies and senior bankers and investors involved in advanced and emerging markets finance, many of whom have participated in the formulation of the *Principles*. Both groups have been engaged in both encouraging and monitoring the practical application of the Principles through assessments of a variety of country cases. Their input has been important in the shaping of these best practices in order to encourage participation from debtors and creditors who support the *Principles*. The *Principles* recommend the use of Creditor Committees in cases in which a debtor defaults on its debt to private creditors and investors and also in the early stages and during periods of diminished market access when debt restructuring or reprofiling is deemed unavoidable. In fact, the key advantage of Creditor Committees for debtors has been that endorsement of the terms of a debt restructuring by the Committee signals acceptability of the deal to the wider creditor community and ensures the support of a "critical mass" of creditors and investors. Such support can play a vital role in reaching the requisite majority voting thresholds required by collective action clauses in sovereign bond contracts and especially in the context of the aggregated CACs published by International Capital Market Association (ICMA) in 2014; allowing the aggregation of multiple series of debt securities for the purposes of voting in respect of a restructuring proposal, which have been welcome by the G-20, the IMF and the IIF, among others.

The best practice principles for the formation and operation of Creditor Committees are based on established practices of the traditional London Club and adapted to the world of capital markets. As such, these principles aim to reflect the impact securities laws may have on both the Committee's operations and creditor-debtor interactions. They also reflect experience gained in corporate restructurings.

It is import to stress that negotiations in good faith should remain the essence of debt restructurings. A move away from good-faith negotiations between issuers, creditors and investors on the basis of a limited number of exceptions is inconsistent with the international understandings that have been historically at the heart of sovereign debt restructurings. The need for such negotiations between the parties is increased and even more significant if the requisite thresholds envisaged under the aggregated CACs are to be met and the sovereign is to benefit fully from the enhanced collective action mechanism.

II. THE ROLE OF GOOD-FAITH NEGOTIATIONS AND CREDITOR COMMITTEES IN THE *PRINCIPLES*

General Guidelines for Sovereign Debt Restructurings

The *Principles* provide general guidelines that lay the basis for a voluntary, good-faith debt restructuring process. Paramount among these guidelines is the notion of good-faith negotiations between a debtor and its creditors; the *Principles* put these two parties at the center of the negotiation process. The Principles recognize the sovereignty of the debtor while upholding the sanctity of contracts during debt restructurings.

Good Faith

The *Principles* place great importance on good- faith negotiations as a key element of the debt

restructuring process. They call on creditors and debtors to "engage in a restructuring process that is voluntary and based on good faith. Such a process is based on sound policies that seek to establish conditions for renewed market access on a timely basis, viable macroeconomic growth, and balance of payments sustainability in the medium term." The *Principles* add that "debtors and creditors agree that timely good-faith negotiations are the preferred course of action toward these goals, potentially limiting litigation risk." Such negotiations are thus at the heart of the restructuring process, including through the operation of Creditor Committees.

However, it is very difficult to come to a precise definition of "good faith" and it is neither wise nor practical to seek an exhaustive set of criteria to evaluate this principle. We agree that, rather than defining the principle itself, the most productive approach is for any participant in the negotiation process to indicate when it believes that actions of another party have not been conducted in good faith.

Creditors and Debtors at the Center of the Negotiation Process

As a joint product of issuers and investors, the *Principles* maintain that the final result of the restructuring process should be obtained through cooperative interaction between the debtor and its creditors. The *Principles* also maintain that "regardless of the specific restructuring mechanics and procedures used (i.e., amendment of existing instruments or exchange for new ones; pre-default consultations or post-default committee negotiations), restructuring terms should be subject to a constructive dialogue focused on achieving a critical mass of market support before final terms are announced."

Sovereignty of the Debtor

The *Principles* recognize the sovereign nature of the debtor. They emphasize the importance of putting a country back on a sustainable economic path, while preserving and protecting asset values during the restructuring process. At the same time, they also uphold the sanctity of contracts between sovereign debtors and creditors, stating that, "subject to their voluntary amendment, contractual rights must remain fully enforceable to ensure the integrity of the negotiating and restructuring process."

The Role of Creditor Committees in the Principles

The *Principles* support debtor-creditor negotiations as the preferred way forward in cases which require a debt restructuring. They also articulate the role of Creditor Committees in such negotiations, especially in cases of default.

Under the sub-principle "vehicles for restructuring" the *Principles* state,

"The appropriate format and role of negotiation vehicles such as a creditor committee or another representative creditor group (hereafter referred to as a "creditor committee") should be determined flexibly and on a case-by-case basis. Structured, early negotiations with a creditor committee should take place when a default has occurred in order to ensure that the terms for amending existing debt contracts and/or a voluntary debt exchange are consistent with market realities and the restoration of growth and market access and take into account existing CAC provisions. If a creditor committee is formed, both creditors and the debtor should cooperate in its establishment."

If a Creditor Committee is formed, the Principles provide guidelines in order to enhance its effectiveness. They stipulate that Creditor Committees "should:

- Adopt rules and practices, including appropriate mechanisms to protect material non-public information;

- Coordinate across affected instruments and with other affected creditor classes with a view to form a single Committee;
- Be a forum for the debtor to present its economic program and financing proposals;
- Collect and analyse economic data;
- Gather, evaluate, and disseminate creditor input on financing proposals; and
- Generally act as a communication link between the debtor and the creditor community."

In October 2004 the International Primary Market Association (IPMA)[1] released standard collective action clauses for fiscal agency agreements under English law that also contained provisions for the appointment of a Noteholders' Committee. This provision was updated in 2014 for use across issuances in conjunction with the new ICMA standard aggregated CACs and, following further broadly based consultations, were further revised in 2015. The updated Noteholders' Committee provisions allow the aggregation of debt across multiple series of debt securities to meet the requisite threshold to form a committee, and, in instances where multiple creditor committees are formed, require that a simple steering committee interfaces directly with the debtor. These contractual provisions written in times of normal market access should help to guide the process at other times (including a time of crisis) and thereby facilitate sovereign debt restructurings further. Their take up has, thus far, however, not matched the adoption of the aggregated CACs in sovereign bonds issued since their publication.

In practice, however, a Creditor Committee can be formed at the time of need whether or not a creditor engagement provision is included in the underlying debt contracts. With this in mind the best practice principles which follow are valuable both in cases where there is an underlying creditor engagement clause and where there is no such provision.

III. BEST PRACTICE PRINCIPLES FOR CREDITOR COMMITTEES

1. Key Concerns Regarding Creditor Committees

Over the past few years, establishing Creditor Committees has faced certain hurdles. On the one hand, debtors have, in some cases, objected to recognizing Creditor Committees for various reasons: either because they were not involved in the formation of the Committee; had reservations regarding certain Committee members with whom they did not want to negotiate; questioned the Committee's representativeness; or because they simply did not want to negotiate with creditors and investors, preferring to do so bilaterally or not at all. On the other hand, some members of the creditor community have been reluctant to join Creditor Committees if they saw it as constraining their range of options or they have not been able to because they have not had the corporate structures which would allow them to participate.

On the sovereign side, there has also been some reluctance to accept to pay the costs of the Creditor Committee and a desire that the good faith negotiation requirement should apply to creditors as well as debtors.

Perceptions by some issuers that the Committee process is slow-moving and causes delay in the resolution of a debt problem have also been cited as a reason that they have favoured a unilateral approach. When considering such an approach, issuers should be aware that refusal to negotiate may result in low participation and expensive lawsuits, and as a result possible constraints on market access.

[1] On July l, 2005, IPMA merged with the International Securities Market Association (ISMA). The combined entity is known as the International Capital Market Association (ICMA).

Much of the debate has centered on the issue of "representativeness" of a Creditor Committee. In some cases, issuers' legal advisors have questioned whether Committee members have secured mandates from other members of the creditor community in order to represent them. Such a request goes against the grain of reality, however. Historically, members of Creditor Committees have not formally "represented" other creditors and investors but they have reflected the views of the creditor community during the negotiations with a view toward attracting a critical mass of support for negotiated restructuring terms. In a small number of cases, a group of creditors and investors, in particular fund managers, have appointed a representative to the Committee to negotiate on their behalf.

Representativeness has also been interpreted to mean sufficient diversity of creditors and investors. Diversity in turn has caused concerns in some quarters that Creditor Committees are cumbersome to deal with, especially since different members of the creditor community may have divergent interests because they may have purchased credit default swaps or other protections, or because they may have acquired instruments on the secondary market and thus are not original holders.

In today's market, a Committee having a diversity of creditors and investors is likely to mean having banks, fund managers, hedge funds, and retail investors either represented and/or directly involved. However, debtors have objected that some types of creditors and investors who would need to have representativeness are not capable structurally of maintaining the needed confidentiality and obeying the applicable insider trading rules.

While confidentiality was protected by unwritten rules in the 1980s and 1990s, today's world of securities offerings has set higher standards.

One issue relates to the type of information a debtor can release ahead of an offering. (Unregistered offerings are speedier and lower cost options but the release of the "wrong" type of information may delay or prohibit the debtor from proceeding with an unregistered form, and instead a registered offering may be required.)

The other issue is that securities laws (in most jurisdictions) preclude trading on non-public material information, and a Committee is likely to come in contact with such information. This is a concern for creditors, investors, and debtors. For creditors and investors, the "stop trading" rules of some previous restructurings are not feasible. For the debtor who may bear many of the negative consequences of information leaks and insider trading, a "no trading" rule may be preferred for Committee members.

As a possible solution, a "code of conduct" has been used in a few cases in the sovereign context but cues have been taken in particular from corporate restructurings. Such a code is an agreement between the debtor and the Creditor Committee on a range of issues. It imposes simple restrictions on confidential information on both sides and offers more flexibility on trading for Committee members who commit to complying with insider trading rules.

The best practice principles articulated below address these key concerns as well as other issues with the aim to develop a better basis for Creditor Committees to be acceptable to issuers and protect the rights of creditors and investors.

2. Creditor Committee Best Practice Principles

A. Initial Formation

The initiative of forming a Creditor Committee can be taken through various approaches: the debtor can ask for a Committee to be formed – this has occurred in a few cases; the debtor and its creditors and investors (hereafter called "the creditor community"[2]) agree to form a Committee – this has been the most common case; or the creditor community initiates the formation of a Committee that reflects their interests.

If multiple creditor committees are formed, in order to make the process as efficient as practicable, thought should be given to whether it would be beneficial to form a single steering committee to interface with the debtor. Where there is considerable diversity in the asset classes represented by different committees, the formation of a single steering committee may not be as beneficial as it would be in instances where multiple committees represent substantially similar asset classes.

B. Cooperation and Trust

1. In order for the negotiations to proceed in an orderly manner, an element of trust must be developed between the debtor and the members of the Committee, as well as among Committee members themselves.

2. The *Principles* call on the debtor and the creditor community to cooperate in the formation of the Committee. It is thus important to be aware of certain sensitivities a debtor may have regarding individual creditors and investors.

3. It is also important for there to be an open discussion concerning who should meet the reasonable costs, including legal and financial advisory fees, incurred by the Committee.

4. The parties should also discuss the issue of endorsement of the terms of a debt restructuring to be given at the end of the negotiation process. To the extent the Committee agrees with the terms of a debt restructuring it should seek to signal support for the proposal, to the extent possible. There may be instances where unanimous support of the Committee cannot, despite good faith negotiations, be obtained. In such instances, it should be understood that the debtor should not feel precluded from bringing its restructuring proposal to the market nevertheless, especially if it believes there is significant support for it.

C. Diversity of the Creditor Community

1. The Committee should consist of creditors and investors who can reflect the interests of the range of members of the creditor community affected in the negotiation process.

2. Diversity of Committee members should encompass not only financial instruments and investment strategies but also regional differences. The latter is particularly useful in order to consider differential tax treatments and regulatory differences that may help design options to facilitate the participation of the creditor community in different jurisdictions in the restructuring.

3. In order to facilitate participation by hedge funds and asset managers who may face conflicts of interest when they come into contact with material non-public information or other constraints (staffing, for example), consideration could be given to appointing an external representative. Such an individual should have appropriate restructuring experience (as described below) and operate under his terms of reference. This representative would be bound by confidentiality parameters (see below) and would provide only the necessary information that his clients need in order to make decisions regarding the restructuring negotiations.

4. The Committee should be of a manageable size, but Committee membership should not be limited only to "large" creditors and investors. At the same time, the Committee as a whole should at all times hold or represent a substantial amount of claims and should include a diverse set of creditors and investors (see "Diversity" above).

[2] The "creditor community" includes banks, fund managers, hedge funds, and retail investors.

5. A Committee must have credibility with the debtor and be able to signal that it has influence with a critical mass of all creditors and investors although as a legal matter the Committee will not be able to bind holders of the debtor's debt securities in any event, acceptance or not of a proposal will be based on participation by such holders in an exchange offer and/or voting rights being exercised as part of a collective action mechanism, for example. To the extent, however, that the Committee would wish to discuss matters of internal ongoing administration following its establishment, the Committee should not need to act by unanimity in respect of any decisions to be taken.

6. The debtor and the Committee must be prepared to discuss the relative contribution, by way of debt relief or otherwise, of other creditors, such as bilateral and multilateral creditors: in the context of any debt sustainability analysis underpinning the restructuring discussions.

D. Speed of Process

1. The creditor community should work closely with the debtor toward the formation of the Committee, recognizing that this process can be initiated through different channels. There should be a presumption that speed is of the essence.

2. Creditors and investors should consider approaches to internal coordination that expedite rather than delay the process.

3. Creditors, investors and the debtor should agree on the negotiation process that should be followed, including the nature and sequence of the discussions. Such an understanding, which of course should not delay the actual negotiations, could help inform the IMF, for example if judgments on lending into arrears need to be made.

4. Committee members should take into account the time commitment they must set aside from their day-to-day work in order to participate in restructuring negotiations. To ensure continuity, it is important that a particular creditor or investor be represented by the same individual throughout the restructuring process.

5. Effective Committee leadership will be key to ensuring an efficient Committee process.

E. Confidentiality

1. The members of the Committee, the debtor, and advisory firms should consider agreeing on and signing a "code of conduct."

2. Any information not already in the public domain would be considered confidential.

3. Under the code, parties would agree to refrain from disclosing confidential information to anyone other than a list of related parties (provided they also subject themselves to the code) unless required by law.

4. Under the code, parties could issue periodic press releases that comply with applicable securities law to "share information with the market." Information would not be released that either "conditions the market" for an offering or that could be seen as deceptive.

5. Legal advisors to parties should advise on what information can be released.

6. Committee members should implement Chinese Walls or similar measures to ensure that those who make trading decisions are not in the possession of confidential information that is shared in

the context of a restructuring negotiation.

7. Negotiations should take place directly between the debtor and creditors, without the participation of multilateral or bilateral organizations, unless their participation or presence is requested by either the debtor or the creditors, and the other side agrees to such a request.

8. Both debtor and creditors should avoid commenting on the negotiations, especially whist these are ongoing, as this could undermine trust and also result in price sensitive information leaking into the capital markets and affecting the price of the debtor's securities.

F. Restructuring Experience

1. The "tool kit" of at least some of the Committee members' experience should include practical skills in sovereign and/or non-sovereign restructurings.

2. Creditors and investors who are new to the asset class should not be excluded for lack of experience, in particular if their claims are substantial.

3. Committee members should consider the feasibility of particular restructuring proposals they aim to advance with the debtor.

G. Legal Advisors

1. The law firm representing the Committee should have ample debt restructuring experience.

2. If the firm has business relationships with Committee firms, in particular those with sizable shares of the outstanding debt, potential conflicts of interest should be addressed internally.

H. Logistical Support

1. Committee members should share responsibilities for providing facilities and staff to arrange meetings and for handling communications with the debtor as well as other members of the creditor community not on the Committee.

2. The clearing systems should be leveraged as a communication tool particularly in cases in which a substantial amount of debt is held at the retail level.

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