

Options for Moving Forward

Ad hoc Committee on a Multilateral
Legal Framework for Sovereign Debt
Restructuring Processes, First Working
Session

February 4, 2015

Trillion Dollar Questions

- What can a sovereign debt restructuring process achieve, if some of the world's most powerful financial jurisdictions refuse to participate?
- How effective can such a process be if it can't be comprehensive of all debt stock?

Answer:

A multilateral legal framework can be extremely effective for those countries that participate and such a process can influence the broader global financial architecture.

1.) Benefits for Sovereigns That Participate

2.) Influences on Global Financial System

Sovereign Benefits

- Offer protective space to contract that ideally is safe from predatory behavior
- In a bilateral sense, since countries in this room lend to one another, it could provide a viable venue to equitably settle debt disputes
- If it is a legal framework (similar to US Chapter 11), it could allow a significant percentage of debt stock to be dealt with as a block
- Further, it could allow automatic stays of payments once a claim is filed for a percentage of debt stock. For some countries in financial distress, even easing a percentage of debt could prevent a country from default or needing to restructure
- An Ex Ante effect in favor of responsible lending and borrowing
- If it is predictable and enhances economic stability for countries that participate and if a process can be created that offers protections for legitimate investors, the process will create an incentive for investors to contract in financial jurisdictions governed by a prudent mechanism

Influences on Global Financial System

- Furthering responsible lending and borrowing in financial jurisdictions such as statutory shifts to prevent predatory behavior
- Furthering debt restructuring improvements at the International Monetary Fund
- Quota Reform

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