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## **STATEMENT**

**by H.E. Mr. Sergey A. STORCHAK,  
Head of Delegation of the Russian Federation, Deputy Minister of Finance of the  
Russian Federation at the first working session of the Ad Hoc Committee on  
Sovereign Debt Restructuring Processes**

New York, 3 February 2015

Mr. Chairman,

The temptation to start immediately with the comments on the proposals made by Argentina concerning the development of a multilateral framework on sovereign debt restructuring processes is very high. The document was circulated at the end of last week and has already undergone a thorough examination in Russia. However, I will not do that now, at the first round of negotiations, and I will urge you to follow my example. At this stage, it seems to be more important to identify positions on how you see the document regulating relations in one of the most sensitive areas of human activity.

However, before I identify the main points of our position in this area, I want to draw the attention to one very important detail. As no other country in the world Russia is eligible for its opinion on a multilateral legal framework for sovereign debt restructuring processes to be heard. If you ask me why - the answer is simple and compelling: in less than a quarter of a century, we have been through five consolidations of Paris Club, two

agreed with the London Club, the exchange of debt bonds issued under Russian law for other financial instruments, finally through the practical use of such mechanisms for restoring debt sustainability as early repayment of previously restructured debt, and then buyback of what is left of it.

But that is not all. During the same period, as a creditor country, we have restructured the debt of about 50 debtor countries through the Paris Club and of about 20 more sovereign states under bilateral agreements. Thus, Russia knows from its own experience what it means to be "a problematic debtor" or "constructive" lender. In fact, the historical memory defines our vision for the future multilateral mechanism for sovereign debt restructuring.

1. These mechanism should be calibrated so that it is equally ensures the interests of both sovereign debtor and its creditors. It is clear that this is an extremely difficult task. But it would be a mistake to assume that this goal is not achievable. The whole historical experience suggests that in the end, the participants of the "debt drama" can achieve an agreement. We have to find a way out of the administrative and organizational "trap" inherent in the restructuring process that is known as "too late, too slow and too expensive."

2. Talking about the sovereign debt restructuring mechanism, I used the word "calibrate" and not "create". This - is no accident. I am convinced that many of the elements of the mechanism, which Argentina suggests and which will appear as the result of our work can be taken from existing practices. For example, the principle of establishing a "cut-off date", widely and effectively used by the Paris Club creditors, can serve as a good basis for the separation of debt on the "old" loans that come within the restructuring process from debt on the "new" loans used, in particular, to promote economic growth and to address the accumulated debt problems. Such examples are many, and therefore, let us not reinvent the wheel where possible.

3. Russia stands for the development of a comprehensive sovereign debt restructuring mechanism. Thus, in our view, a "comprehensive" mechanism will have at least three dimensions. First, it will apply to all sovereign borrowers facing financial problems regardless of their group according to the World Bank classification. Second, this mechanism will focus

on settling and/or restructuring of all categories of sovereign debt, because we are talking about legal and, obviously, the organizational and administrative aspects of the process of reaching agreement between the debtor and his creditors.

Third, such a mechanism should contain recommendations and commitments concerning not only the organization of the process of restructuring sovereign debt, but also recommendations and commitments associated with the implementation of a sovereign state borrowing and, in this context, responsibility of the creditors. We believe that it is pointless to constantly fight with the symptoms of the disease, named "debt overhang" or "overlending". It is time to think seriously about establishing of international control over the planning and implementation of sovereign borrowings. Revised at the initiative of Russia and adapted to modern conditions "Guidelines for Public Debt Management" can be a good platform for the relevant section of the final document of our Ad Hoc Committee.

4. Russia shares the point of view of those experts who believe that a purely "contractual" approach (which was prioritized more than a decade ago) has obvious failures in restructuring sovereign debt, and like many others, we are not ready to support the "statutory" approach, because it touches on renouncing sovereignty in an exceptionally important for any state issue of formation and execution of the national budget. For this reason, and taking into account the accumulated experience, which I mentioned at the beginning of my speech, we are standing for making a mandatory set of rules and principles the basis of sovereign debt restructuring mechanism. Simply put, the Russian "voice" is for «rules based approach».

5. We consider it very important that the above-mentioned rules and principles at some point could be considered legally binding for all stakeholders. I would like to emphasize the crucial importance of the defining this moment because, as noted above, the preservation sovereignty in decision-making on debt restructuring was and remains the most important prerequisite for the broad support of the future framework agreement. In this context, a good reference point for future work is an example of putting into practice the so-called "Key Attributes of Effective Resolution bankruptcy Regimes for Credit Institutions" proposed by the Financial Stability Board and endorsed by "Group of 20".

6. In our opinion, the provisions of the Framework Agreement must be developed in such a way as to prevent the limitation of sovereign borrowers access to international debt markets because of political or other non-financial reasons. Such restrictions may provoke restructuring process when there is no need in it. Thus, not only the interests of the sovereign, but of his creditors who have nothing to do with the above mentioned restrictions may be jeopardized.

7. Particular attention should be given to reaching agreement on the procedure of activating of this mechanism of sovereign debt restructuring. We do not support the idea that such a decision should be left to the debtors discretion, as in this case, dramatically increases the risk of aggressive mindless borrowing policy. Although, we are not satisfied with the existing situation in which the rights of such triggering "de facto" are in the hands of the IMF. Which uses for this purpose its specific tools, such as the policy of "exceptional access to Fund resources," lending into areas policy, the private sector involvement policy other.

Of course, it would be wrong to deny the important role that IMF plays and, obviously, will play in the restructuring of sovereign debts. However, there is the fact that its legitimacy as an international organization was severely damaged, including due to non-entry into force of Seoul Agreements. And the operation of the Fund stronger depends on the borrowed funds. This obvious fact undermines the very foundations of its existence as a quota based financial institution.

The Russian delegation has no answer about how and by whom the sovereign debt restructuring mechanism should be activated. However, we are convinced that the search for an answer to this question should be given the same attention as the very mechanism itself.

Thank you.