

**Statement by Sri Lanka at the General Discussion of Agenda Item 3
(A multilateral legal framework for sovereign debt restructuring processes) of the
first working session of the Ad hoc committee on sovereign debt restructuring
processes**

03rd February 2015

Mr. Chairman,

At the outset, we wish to congratulate you on assuming the chair of the ad hoc committee on sovereign debt restructuring processes. We align our position with the statement of G 77 and China delivered by South Africa.

A multilateral legal framework for sovereign debt restructuring processes, acceptable to both investors (lenders) and borrowers (sovereigns) would, inter alia, enhance the efficiency, stability and predictability of the international financial system and achieve sustained, inclusive and equitable growth and sustainable development, in accordance with national circumstances and priorities. It will protect the interests of both the investors and borrowers. We expect such a framework to result in considerable cost savings, including legal costs. The global financial system also needs to reflect contemporary reality. What we have today is a reflection of a world that no longer exists. From the international financial institutions, with their outmoded structures, to the unregulated power of lenders to cripple sovereign states using legal mechanisms of foreign states, we need to review the system, and introduce new structures.

Mr. Chairman,

There appear to be three elements that should be included in a multilateral framework for sovereign debt restructuring processes. Sri Lanka believes that the inclusion of these elements is important for the viability of such a framework.

First, a mechanism to overcome the objections of a minority of lenders for a proposed sovereign debt restructuring – Usually, a multilateral sovereign debt involves one sovereign (borrower) and many lenders (investors). As experience shows, it may not be possible to obtain the consent of all lenders for a proposed debt restructure. Further, the lenders who disagree with

a proposed debt restructure could initiate legal action in a favourable jurisdiction and thereby jeopardize the very goal of such restructure. Hence, in formulating the proposed multilateral legal framework for sovereign debt restructuring processes, the above factor needs to be addressed, perhaps through the pooling of such disagreeing lenders to maintain the original status or establish an arrangement involving mutually consented buy-back arrangements via a third party.

Second, a sovereign debt restructure should not be treated as a default – International rating agencies and potential investors generally view a sovereign debt restructure as a default and such an approach has severe negative implications for the sovereign (issuer). For example, downgrading of the country's sovereign rating, charging of an additional risk premium on subsequent borrowings and more importantly, triggering a default on other outstanding sovereign debts. Therefore, we would see a need for giving due consideration to the above aspect when formulating a multilateral legal framework for sovereign debt restructuring, and make such information publicly available.

Third, an independent mechanism supported by an institutional framework for assessing a proposed sovereign debt restructure – Usually, a debt restructure by a sovereign is considered against an unfavourable macroeconomic development, at least, against the contractual rights of the multilateral investors or the lenders who have invested in debt instruments of the said sovereign. However, all proposals considered for a sovereign debt restructure should safeguard not only the borrower's (sovereign) interest but also that of the lenders and the investors. In order to maintain the faith of such investors or lenders in a proposed debt restructure, while helping the particular sovereign to minimize potential "cost" of a sovereign debt restructure, Sri Lanka would like to work in collaboration with member states for an approach to establish an institutional framework in parallel with the Paris Club arrangement.

Mr. Chairman,

Let me conclude by assuring of Sri Lanka's constructive contribution in this effort to establish a multilateral legal framework for sovereign debt restructuring processes.

I thank you.