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Global Sovereign Debt Roundtable

Compendium of GSDR Common Understanding on Technical Issues

October, 2024

Restructuring Timelines	
	From April 2024 GSDR Cochairs Progress Report: "Alongside other workstreams, including the work at the G20, Paris Club, and experience-building through ongoing restructuring negotiations in the first place, the GSDR discussion has helped accelerate processes. Still, timelines remain beyond the typical time frame observed in the past, negatively impacting the debtor and its creditors. Where applicable, in particular for Common Framework cases, the timeline to form an official creditor committee (OCC) could be shortened, to take the best advantage of a format that ensures the fastest and most efficient sharing of information with all participants. This would also help communication and coordination with private creditors and accelerate their own restructuring processes. In future restructuring cases, all relevant stakeholders, including the IMF, the World Bank and official bilateral creditors, should work expeditiously with the debtor country to ensure that sufficient information is shared in a timely manner, in particular on DSAs and macroeconomic frameworks, while taking into account the specificities of each case and time for internal coordination and decision. Absent specific circumstances impeding a timely decision-making, and provided sufficient information is being shared early and potential concerns being discussed, the proposal for the next debt restructuring case should be set as a trial example to aim for program approval within 2-3 months of SLA. Such progress would strengthen timeliness and predictability, which is a clear, high aspiration of all GSDR members."
Information Sharing	
	From October 2023 GSDR Cochairs Progress Report: "The IMF and the World Bank have published guidance to staff on information sharing in the context of sovereign debt restructurings. These notes provide guidance on what information can be shared, with whom, and through which channels, at the different stages of the restructuring. See IMF Paper No. 2023/027: Staff Guidance Note on Information Sharing in The Context of Sovereign Debt Restructurings (June 2023); and Bank Guidance: Staff Guidance Note on Information Sharing in the Context of Sovereign Debt Restructurings (English). Washington, D.C.: World Bank Group."
Restructuring Perimeter	

Short-Term Debt	From October 2023 GSDR Cochairs Progress Report: “Discussions showed growing support to generally exclude short-term debt (debt with an original maturity of one year or less) from the restructuring perimeter. The exclusion of short-term debt is common practice under Paris Club treatments and an explicit feature of the Common Framework. It is important for restructuring countries as it helps maintain access to trade finance. In recent and ongoing restructuring cases, including outside the Common Framework, the practice has similarly excluded short-term debt from restructuring perimeters.”

Domestic Debt	From October 2023 GSDR Cochairs Progress Report: “Discussions underlined the complexities and trade-offs attached to domestic debt restructurings (DDRs), which are different from external debt restructurings (EDRs). Although a DDR may appear easier to accomplish as sovereigns raise debt under local law, giving them, in principle, stronger leverage on the terms and pace of the debt restructuring, domestic debt is generally held predominantly by domestic creditors whose losses can spread the initial sovereign debt distress to the broader economy and society through various channels. While there should not be a presumption ex ante that domestic debt should be included or excluded in the restructuring perimeter, as the analysis should be data-driven and country-specific, a range of underlying circumstances should be considered when assessing whether to include or exclude domestic debt and the impact on financial stability, growth, social cohesion and ultimately debt sustainability. They include, inter alia, the overall level of public debt, the share of domestic debt in total public debt, the country’s financial depth, the legal features and currency and creditor composition of the domestic debt, and the social and political implications of the potential restructuring strategy. These considerations present a different set of constraints than in external debt restructurings. The relative balance between different factors would differ case-by-case. A DDR might be necessary in some cases—including when public debt is assessed unsustainable and EDR would be insufficient to restore debt sustainability—, but inappropriate in others. The decision to include domestic debt in the restructuring perimeter and, if so, the extent of such a DDR, should be based on a scenario analysis that considers the costs and benefits of different combinations of DDR and EDR, anchored in the objective to restore debt sustainability while minimizing potential costs, including to financial stability, economic growth, social cohesion, etc. Pursuing a single metric of comparable treatment for both DDR and EDR seems unlikely to be appropriate—rather, scenario analyses, communication and transparency are essential. While DDR and EDR are often part of the same broader restructuring strategy, they have different characteristics and follow different constraints. However, it is critical for national authorities to explain to their creditors the approach to domestic debt restructuring (which could be the absence of any DDR) as well as the considerations attached to the potential scenarios analyzed as part of the cost-benefit analysis. Moreover, transparency and disclosure of the country’s domestic debt portfolio, regardless of whether DDR is pursued, gives comfort to external creditors and can help facilitate EDR.”

Non-Resident Holders of Domestic Debt (NRHs)	From April 2024 GSDR Cochairs Progress Report: "Discussions underlined emerging consensus on the need to treat NRHs on a caseby-case basis in the event of a restructuring. Some participants advocated for the inclusion of NRHs in the restructuring envelope if they are included in the DSA. Others underlined that, while NRHs are external creditors from the perspective of the DSA (since they receive payments flowing out of the country, being non-resident), NRHs hold debt instruments that are governed by domestic law. As such, NRHs are intrinsically linked to the decision of the authorities to include or exclude "domestic debt" from the restructuring perimeter, for which several trade-offs and countryspecific scenario analyses need to be considered. Further discussion is needed to deepen the common understanding on this complex issue."

SOE Debt	From April 2024 GSDR Cochairs Progress Report: "There was limited progress towards a consensus on the treatment of SOE debt. Some participants continued to express their view that SOE debt should be excluded from the perimeter of DSAs and restructuring envelopes. Others maintained their view that SOEs are a relevant source of fiscal risk especially in LICs and therefore their inclusion in principle in the DSA perimeter in application of the current LIC DSF (with limited exceptions) is warranted. The discussion confirmed the existing flexibility, whereby creditors and the debtor country can agree on a restructuring perimeter that differs from the perimeter of the DSA, even though this approach has inevitable burden-sharing consequences for the participating creditors. The issue of SOE debt will continue to be discussed, including as part of the review of the LIC DSF."
Restructuring Parameters	
Cutoff Dates	From October 2023 GSDR Cochairs Progress Report: "Cutoff dates are key for the restructuring process but also an important parameter to protect new financing to the restructuring country, including emergency support. As such, having early clarity on the cutoff date is critical. That said, flexibility seems warranted to account for case-specific circumstances. In practice, in recent restructuring cases, cutoff dates have been decided case-by-case by creditors, generally not later than the date of the staff-level agreement (SLA) reached between the authorities and IMF staff on an IMF-supported program, which protects new financing provided after the SLA."

Comparability of Treatment (CoT) between Official Bilateral and Private Creditors, and Consistency with Debt Restructuring Targets and IMF Program Parameters	<u>From April 2024 GSDR Cochairs Progress Report</u>: “Assessing and enforcing CoT between official bilateral and private creditors participating in an external debt restructuring remains a critical issue where further clarification is warranted. In the recent and ongoing restructuring cases under the Common Framework, official bilateral creditors have been using an approach according to which CoT is: • Assessed using the three criteria listed in the Common Framework: i. The changes in nominal debt service over the IMF program period; ii. Where applicable, the debt reduction in net present value terms (NPV), using a “New NPV / Old NPV” formula and the discount rate of the LIC DSAs (currently 5 percent); iii. The extension of the duration of the treated claims; and • enforced via mechanisms such as claw-back clauses and/or request to remain in arrears vis-à-vis private creditors until an agreement has been found that respects CoT. For restructurings outside the Common Framework, similar assessment and enforcement mechanisms have been used, with NPV calculations based sometimes on two or more discount rates to ensure some sensitivity analysis. GSDR discussions have reconfirmed that official bilateral creditors seem intent to maintain this approach in future cases. Strengthening the exchange of information and consultation process across creditor groups, as well as with the IMF and World Bank, would facilitate convergence and timely finalization of the restructuring.

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In practice, GSDR discussion underlined support for:

Enhanced information sharing and coordination across creditor groups on CoT metrics, including expected NPV relief. When negotiating with its private creditors, the debtor country needs to know in detail how CoT will be assessed. Thus, official bilateral creditors should provide the debtor with clarity regarding the quantitative metrics that need to be respected for the CoT to be met, and the related room for maneuver that exists within these metrics. Relevant information should be shared with the other creditors to facilitate and accelerate the restructuring process. This could be done either through improved information sharing and coordination across creditor groups.
Timely verification of consistency with debt targets and IMF program parameters. It is critical that the different contributions to the restructuring ultimately meet what is needed overall. Timely information sharing on the restructuring strategy by the debtor country to IMF staff is key to confirm the consistency of the envisaged treatment with debt targets and program parameters, and should happen before any restructuring agreement is made public.

Ultimately, close coordination and exchange of information among the debtor country, private creditors, official bilateral creditors, and the IMF, is essential. Official bilateral creditors should ensure timely communication of the key data upon which CoT will be assessed, while private creditors and the debtor should ensure that, before they finalize and announce an agreement in principle, a verification is completed by the debtor with the IMF staff on consistency with program parameters and with the official bilateral creditors on CoT. It is the only way to ensure both the consistency with debt targets and IMF-supported program parameters (without which the program or review of program cannot be presented to the IMF Executive Board), and CoT (without which the official bilateral creditors would not implement their restructuring, de facto making the restoration of debt sustainability impossible, and thus blocking the program or review of program).

Importantly, the steps described above do not necessarily lead to a sequential process, with official bilateral creditors moving first and private creditors second. In particular, nothing precludes both groups to advance their negotiations in parallel. The GSDR discussion underlined that, should this be the preference of the debtor, such parallel negotiations should be supported as this would strengthen the chance for a swift and efficient resolution.”
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<td colspan="2">Other Aspects</td>
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<td>Debt Swaps and Climate Resilient Debt Instruments</td>
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<u>From April 2024 GSDR Cochairs Progress Report</u>:

“Discussions underlined widespread view that debt-for-nature/debt-for-development swaps can be a useful tool for liability management but are generally not appropriate for situations where debt restructuring is required. Overall cost-benefit analysis should be carefully undertaken. More work would be needed to standardize these instruments and make them more rapidly and cheaply scalable. Diverse views were expressed on the public support for these operations, often emphasizing the need for strong alignment of the development outcome of the swap and country priorities. Participants also noted the need to increase transparency of documentation and governance.
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	Climate Resilient Debt Clauses (CRDCs) were generally viewed as useful initiatives and scaling up their use was largely supported. The discussion covered a range of technical issues that could facilitate their adoption and implementation beyond the standard term sheet prepared by the International Capital Markets Association, with some official creditors sharing their successful experience in including such clauses in their loans. Expansion beyond the case of hurricane events, where data history is large and risks and probabilities are well documented, was identified as challenging, but ongoing work to define standard clauses for such other events was highlighted as promising. Transparency and clarity about the indicators triggering the clauses are critical."
Engagement with Credit Rating Agencies (CRAs) on Issues Associated with Debt Operations	From April 2024 GSDR Cochairs Progress Report: "Meeting with CRAs helped participants comprehend how CRAs approach different debt operations that a country can consider. CRAs explained their criteria to classify Distressed Debt Exchanges (DDEs), which focuses on the reduction of value to holders with respect to contractual terms and on whether the exchange aims at avoiding default. Participants raised several questions, in particular on the rating implications of debt swaps and liquidity relief operations, including multilateral initiatives such as the G20 Debt Service Suspension Initiative (DSSI) in 2020-21. CRAs clarified that debt-for-nature/debt-for-development swaps would be treated like any debt exchange operation (which may or may not imply distress). Liquidity operations would be similarly assessed on a case-by-case basis, depending on whether or not the exchange would qualify as DDE. All participants stressed the importance of increasing transparency, information sharing and communication. GSDR participants showed great interest in better understanding CRAs methodologies and the consequences of potential debt management operations on ratings. CRAs noted that there is already extensive discussion with issuers, but would welcome even closer engagement."
SCDIs	From October 2024 GSDR Cochairs Progress Report: "GDSR Participants agreed that SCDIs can help bridge the gap between borrower and creditors in certain restructuring negotiations where uncertainty is high, but they should not be the norm in debt restructurings. In general, agreeing on a fully defined debt treatment early on brings certainty to the creditors and investors and is more efficient than a contingent restructuring. There may be cases, however, when uncertainty around the economic outlook and future capacity to repay of the country is so high that it is difficult for the debtor and its creditors to find a common ground in a timely manner, while delaying the negotiations until uncertainty dissipates is costly for all. In such circumstances, SCDIs can help bridge debtor-creditor differences. This is particularly the case when major assumptions on the future of the economic prospects of the debtor country impact significantly the restructuring envelope (e.g. assumptions on new sources of revenues such as new oil fields, significant evolution of the debt carrying capacity etc.). When used, SCDIs should have well-defined verifiable triggers and be consistent with debt sustainability assessments and IMF program parameters in all scenarios. Depending on the case, there may also be merits to introduce payout caps and/or mechanisms to ensure that payments can be adjusted both up and down depending on how conditions evolve. If SCDIs are used to facilitate debt restructuring negotiations, their design should involve the following: (i) a careful selection of verifiable triggers that best reflect increased repayment capacity by the borrower country, (ii) ensuring that the payments associated with the use of the SCDIs do not

	compromise the borrower's debt sustainability prospects (for instance by setting payout caps), (iii) the use of market friendly design to the extent feasible, such as one-time tests and shorter-maturity instruments to limit uncertainty, subject to debt sustainability risks being adequately managed. SCDIs also pose CoT challenges which need to be taken into account for the restructuring timeline. Assessing CoT is further complicated by the presence of SCDIs, given the inherently higher uncertainty over cash flows, and lack of agreement at this stage on whether CoT should be assessed on an ex ante (are official and private creditor SCDIs comparable?) or ex post basis (through revision or clawback clauses in official creditor agreements). That problem is exacerbated when private and official creditors have different SCDIs (or when only one creditor group has SCDIs), possibly requiring additional iterations across creditor groups. These factors should be taken into account when considering the use of SCDIs as they may impact the timeline of the restructuring. Early engagement across creditor groups can facilitate the common understanding on the trade-offs and best path forward. GSDR members supported bringing further clarity on the treatment of SCDIs in CoT assessments through a specific workshop."
Collateralized financing from private creditors	From October 2024 GSDR Cochairs Progress Report: "The benefits and risks of collateralized borrowing depend on the specific terms of the financing. Collateralized financing of projects where future revenue streams are directly linked to debt repayment under adequate disclosures that mitigate the risk of mispricing for both unsecured and secured creditors has the highest potential for benefiting the borrower and protecting the longer-term development relationship with creditors. Conversely, collateralized financing can cause more harm than good when one or more of the following criteria are met: (i) it does not improve borrowing terms; (ii) it weakens debt sustainability; (iii) it is inadequately disclosed; or/and (iv) it does not respect negative pledge clauses. Collateralized lending, in particular from private creditors, poses important challenges in restructuring cases. Collateralization may provide a creditor with de facto seniority on its claim. On the official sector side, coordination mechanisms such as the Paris Club or the Common Framework, or informal coordination where formal processes are not in place, anchor the negotiation primarily around the objective of achieving fair burden sharing even if some official claims are secured with collateral. The political will to find a solution, or the absence thereof, is a more determining factor than the presence or absence of collateral. The situation is different on the private sector side, where the presence of private collateral can lead to an impasse. Official bilateral creditors may not stand ready to provide more debt relief to compensate a lower contribution of private creditors with collateralized claims than what would be consistent with the principle of comparability of treatment. In such situations, the IMF may not be in a position to provide financial support given the lack of prospects of a successful debt restructuring to restore debt sustainability. In some cases, the specific features of certain resource-backed loan contracts can also make the use of the IMF's Lending into Arrears Policy (LIA) impossible because, in practice, the debtor country cannot run arrears to its creditor. There was broad consensus among GSDR participants on the importance of increasing awareness on the benefits and risks of collateralized financing practices. The IMF and World Bank underlined the findings and policy considerations included in their 2020 note on "*Collateralized Transactions: Key Considerations for Public Lenders and Borrowers*" and 2023 note on "*Collateralized Transactions: Recent Developments and Policy Considerations*", which can help countries assess these benefits and risks, and adopt mitigating measures where needed, including on

	transparency and disclosure. There was also general support on the importance to help debtor countries address these issues through trainings and technical assistance missions.”
Debt Service Suspension and Treatment of Arrears	From October 2023 GSDR Cochairs Progress Report: “On the issue of whether and how debt service could be suspended during the negotiation, in particular for Common Framework cases, some would support an automatic debt service suspension (DSS) on official bilateral claims from the point when an SLA has been reached for an IMF-supported program, which would provide debtors with liquidity relief at a time of major stress and incentivize creditors to expedite the process. Others expressed preference for creditors and creditor committees to provide DSS at the country’s request (upon reaching an SLA), without automaticity. Some consideration may be also given to granting debtor countries a time-limited debt suspension. The proposal to provide a waiver on penalties on arrears accumulated during the negotiation, as opposed to arrears accumulated before, gained growing support. Generally, arrears accrue at contractual rates (with a potential penalty). However, the
	treatment of arrears accumulated during the debt restructuring negotiation phase has varied. Many participants showed openness to provide a waiver on arrears penalties accumulated during the negotiation, subject to internal procedures and domestic approval where needed.”
Support Provided by MDBs	From October 2023 GSDR Cochairs Progress Report: “GSDR Principals reached in April 2023 a common understanding on the role of MDBs to support countries undertaking a debt restructuring through the provision of net positive flows of concessional finance and grants. Subsequent meetings helped explain how the International Development Association’s (IDA), for example, provides not only net positive flows, but also ex-ante implicit debt relief through increased concessionality and grants to countries facing higher risks of debt distress. Members underlined the importance of MDBs’ financial support.”