



## FLORENCE SCHOOL OF BANKING AND FINANCE

### *SOVEREIGN DEBT RISKS*

Instructors

**Lee Buchheit** | Cleary Gottlieb Steen and Hamilton

**Mitu Gulati** | Duke University

**Jeromin Zettelmeyer** | Peterson Institute of International Economics

Theatre

Badia Fiesolana, Via dei Roccettini, 9 - San Domenico di Fiesole

**23 - 24 APRIL 2019**

#### ■ PROGRAMME

##### **23 APRIL**

09.30 - 11.00

##### **Lecture 1. Sovereign financial distress (Jeromin Zettelmeyer)**

- A very brief history of international finance
- Sovereign debt crises: stylized facts
- Diagnosing sovereign debt crises
- Resolving the crisis: to adjust or to restructure?
  - Procrastination and gambles for redemption
  - The role and limitations of international crisis lenders

11.00 - 11.30

*Coffee break*

11.30 - 13.00

##### **Lecture 2. The balloon goes up**

- Bail-in or bail-out?
- The pros and cons of pre-emptive debt restructurings
- Prioritizing debt categories ('excluded' debt)

- The sovereign debt restructurer's toolkit
- Factors influencing the choice of a debt restructuring method
  - Illiquidity VS insolvency
  - Exposure of local financial institutions
  - Foreign creditor expectations
  - IMF expectations
- Creditor consultation (creditor committees and all of that)
- Paris Club/London Club coordination

13.00 - 14.00

*Lunch*

14.00 - 15.30

**Session 3: Encouraging creditor participation in sovereign debt workouts (Mitu Gulati)**

- The holdout creditor problem
- Contractual tools to deter holdouts
  - Collective action clauses
  - Exit consent
  - Trustees VS fiscal agents
  - Withholding tax
  - Local law debt
- Financial/legal inducements
  - Value recovery instruments
  - Co-financing features
  - Loss reinstatement features
  - Participation fees
  - 'Menu of options'
  - Change governing law
- Negative inducements
  - Threats of non-payment (RUFO-style clauses)
  - Immunize debtor assets (Iraq 2003-09)

15.30 - 16.00

*Coffee break*

16.00 - 17.15

**Session 4: Dealing with holdouts**

- The litigation threat
- The public relations threat
- The pari passu threat
- Legal defences (sovereign immunity, act of state, comity)

17.15

*Social activities outside the EUI (TBD)*

**24 APRIL**

09.30 - 10.30

**Session 5. Case study: Greece (Jeromin Zettelmeyer)**

- Background
- Initial policy (full bailout - May 2010 to March 2012)
- PSI 1 (Summer of 2011)
  - Official sector volte-face (October 26/27, 2011)
- Exclusion of bonds held by official sector actors
- Greece's offer to creditors
- 'Retrofit' collective action mechanism
- Results
- Treatment of holdout bonds
- OSI (Official Sector Involvement) discussions

10.30 - 10.45

*Coffee break*

10.45 - 11.45

**Session 6. Proposals to reform the machinery of sovereign debt workouts (Mitu Gulati)**

- Criticism of the current approach to sovereign debt restructuring
- Anne Krueger's Sovereign Debt Restructuring Mechanism (2002)
- IMF's reprofiling policy
- Enhanced CACs
- Criticisms of SDRM-type mechanisms

11.45 - 13.00

**Session 7: Sovereign debt restructuring in Europe (Jeromin Zettelmeyer)**

- The Euro area debt crisis (2010-2015)
  - The official sector actors

- Policies
- Euro-area CACs
  
- Proposals for a European Sovereign Debt Restructuring Mechanism

13.00 - 14.00

*Lunch*

14.00 - 17.15

**Session 8: Ruritania's Sovereign Debt Restructuring (war game)**

17.15 - 17.30

*Closing remarks*