

Professional Training Course

Sovereign debt risks



@FBF_School

23 - 25 May 2022

Theatre - Badia Fiesolana, Via dei Roccettini 9 - San Domenico di Fiesole (Fiesole, Florence)

Format: **Residential**

Course instructors:

- **Lee Buchheit** | Honorary Professor - University of Edinburgh
- **Mitu Gulati** | University of Virginia School of Law
- **Ugo Panizza** | Graduate Institute Geneva

Programme

23 May

13:30 - 14:00 *Welcome and presentation of the School followed by a tour de table*

14:00 - 14:15 **Introduction** (Mitu Gulati)

14:15 - 15:15 **Session 1. Sovereign financial distress** (Mitu Gulati and Ugo Panizza)

- 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

15:15 - 15:30 *Coffee break*

15.30 - 17.00 **Session 2. The balloon goes up** (Lee Buchheit)

- 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

17:30 - 21:00 *Social activities*

24 May

9:30 - 10:30 **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)

10:30 - 10:45 *Coffee Break*

10:45 - 11:45 **Session 4. A Greek Case Study** (*Lee Buchheit*)

- 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

11:45 - 13:00 **Session 5. Two Upcoming (Possible) Restructurings - What are the Strategies to Limit Holdouts?** (*Mitu Gulati, Lee Buchheit & Ugo Panizza*)

- Sri Lanka
- Lebanon

13:00 - 14:30 *Lunch*

14:30 - 16:00 **Session 6. Proposals to reform the machinery of sovereign debt workouts** (*Ugo Panizza*)

- Criticisms of the current approach to sovereign debt restructuring
- IMF's reprofiling policy
- Enhanced CACs

16:00 - 16:15 *Coffee break*

16:15 - 18:00 **Session 7. Sovereign debt restructuring in Europe** (*Lee Buchheit, Ugo Panizza and Mitu Gulati*)

- The euro-area debt crisis (2010-2015)
- The official sector actors
- Policies
- Euro-area CACs
- Proposals for a European Sovereign Debt Restructuring Mechanism

18:30 - 21:00 *Social activities*

25 May

09:30 - 11:30 **Session 8. Ruritania's Sovereign Debt Restructuring (war game)** – first part

11:30 - 11:45 *Coffee break*

11:45 - 12:50 **Session 9. Ruritania's Sovereign Debt Restructuring (war game)** – second part

12.50 - 13.00 **Concluding remarks**