



## **TRAINING COURSE**

# ***MANAGING AND UNDERSTANDING SOVEREIGN DEBT RISKS AND RESTRUCTURING***

**Organised by:** The Florence School of Banking and Finance

**Course Instructors:**

**Lee C. Buchheit** | Cleary Gottlieb Steen & Hamilton LLP

**Mitu Gulati** | Duke University

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

Sala Europa

Villa Schifanoia, Via Boccaccio 121 - Florence

**24-25 APRIL 2018**

### **THE COURSE WILL ADDRESS THE FOLLOWING TOPICS**

- How do sovereign borrowers get into trouble?
- The warning signs of sovereign distress.
- Initial maneuvers to escape and evade the crisis.
- The options when the initial maneuvers don't work — bailout or restructure
- The evolution of sovereign debt restructuring techniques — 1982 to 2017
- The role of the official sector
- Contractual provisions that facilitate, or that retard, sovereign debt workouts
- Sovereign debt restructuring after Greece and Argentina

# PROGRAMME

## 24 APRIL

09.00 - 09.15 Welcome by **Pierre Schlosser** | Florence School of Banking and Finance and Introduction by **Mitu Gulati**

09.15 - 10.45 **Session 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

10.45 - 11.00 *Coffee break*

11.00 - 12.30 **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 restructuring’s toolkit
- Factors influencing the choice of a debt restructuring method
  - Illiquidity v insolvency
  - Exposure of local financial institutions
  - Foreign creditor expectations
  - IMF expectations
- Creditor consultation (creditor committees and all of that)
- Paris Club/London Club coordination

12.30 - 14.00 *Lunch* - Guest Speaker **Georg Vanberg** | Duke University  
*Constitutions and Financial Crises*

14.00 - 15.45 **Session 3: Encouraging creditor participation in sovereign debt workouts (Mitu Gulati)**

- The holdout creditor problem
- Contractual tools to deter holdouts
  - Collective action clauses
  - Exit consents
  - Trustees v. 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)

15.45 - 16.00

*Coffee break*

16.00 -16.30

**Session 4: Dealing with holdouts (Lee Buchheit)**

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

16.30 - 17.30

**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

17.30 - 18.30

*Cocktail*

## **25 APRIL**

09.00 - 10.30

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

- Criticisms 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

10.30 - 10.45

*Coffee break*

10.45 - 12.30

### **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

12.30 - 14.00

*Lunch*

14.00 - 17.30

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