

SKEMA BUSINESS SCHOOL

## Country risk and External Debt Restructuring

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Hello SKEMA FMI! HELP!  
I need to know asap the international bank debt of two countries:  
**Argentina & Spain**

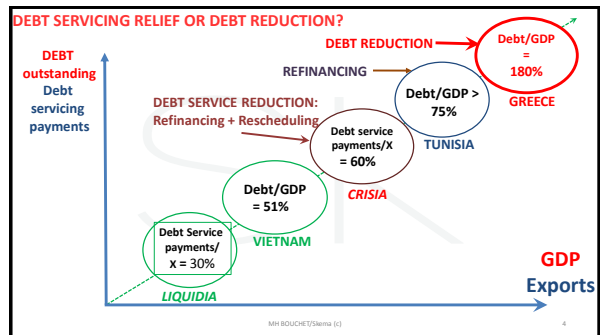
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### What about country debt data?

Bank for International Settlements | International Monetary Fund | Organization for Economic Cooperation and Development | Statistical Data and Metadata eXchange | World Bank Group

**Joint External Debt Hub JEDH**

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### WHO'S WHO?

Five main groups of private and official creditors:

1. The IFIs: IMF and World Bank + RDBs
2. The **Paris Club** of OECD governments
3. Private suppliers: trade debt
4. The **London Club** of international banks
5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders

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**DEBTOR COUNTRY**

The diagram illustrates the flow of debt restructuring. A central bar chart shows debt levels from Year 7 to Year 11. A red arrow labeled 'Debt restructuring' points from the debtor country to two creditor groups: the Paris Club of official creditors (left, red box) and the London Club of private creditors (right, green box). The Paris Club includes IMF and IBRD. The London Club includes IIF (Steering committee and Economic sub-committee). Below the chart, it states 'Debt Refinancing = New Money'.

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### THE PARIS CLUB

#### KEY NUMBERS

Total amount of agreements	433
Total amount of debtor countries	90
Total amount of debt	583 Billion \$
Total amount of countries in "Classic Terms"	60
Total amount of countries in "Houston Terms"	21
Total amount of countries in "Naples Terms"	36
Total amount of countries in "Cologne Terms"	33

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### PARIS CLUB DEBT RESTRUCTURING

- ▶ **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
- ▶ Since then, the 21 Paris Club creditors have reached 433 agreements concerning 90 debtor countries.
- ▶ Total amount of debt covered = **\$583 billion**
- ▶ Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...)
- ▶ Total claims on EMCs end-2017: \$310 billion

- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
- Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique.

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**PARIS CLUB: 7 DEBT RESTRUCTURING GUIDELINES**

1. Consensus
2. Comparability of treatment
3. Solidarity among creditors with on-going information exchanges
4. Case by case treatment of debt crisis
5. Conditionality based on IMF adjustment program and monitoring
6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
7. Secretariat provided by French Treasury

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**PRE AND POST CUT-OFF DATE DEBT?**



► Time + Money = To preserve new money and market access, only **pre cut-off date** debt is eligible to debt relief negotiations through rescheduling, refinancing, debt conversion and debt reduction

Summa

**TOTAL DEBT  
OUTSTANDING OF  
ARGENTINA**

Table1 Joint BIS-IMF-OECD-World Bank Statistics on External Debt (mill. US\$)					
	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1
<b>A1. Loans and other credits (Debt etc)</b>					
01_Cross-border loans, by BIS reporting banks	11,819	12,134	16,882	18,282	...
02_...w/in to nonbanks	16,980	16,872	14,277	16,882	...
03_Official bilateral loans, total	...	...	...	...	...
04_...w/in to multilaterals	...	...	...	...	...
05_...w/in other	...	...	...	...	...
06_Multilateral loans, total	17,897	17,802	17,812	18,899	18,876
07_...w/in IMF	0	0	0	0	0
08_...w/in other multilaterals	17,897	17,802	17,812	18,899	18,876
09_Bilateral export credits, Buenos Union	21,201	21,410	22,790	24,149	...
10_...w/in short term	4,247	6,118	6,079	7,240	...
11_...w/in other	16,954	15,292	16,711	16,909	...
12_...w/in other	16,954	15,292	16,711	16,909	...
<b>A2. Loans and other credits (Debt due within a year)</b>	12,117	11,129	14,438	17,879	...
13_Multilateral loans, IMF, short term	0	0	0	0	0
14_Debt securities (all maturities)	...	...	...	...	...
15_Debt securities held by nonresidents	...	...	...	...	...
16_Debt securities (short term, original maturity)	...	...	...	...	...
17_Debt securities held by nonresidents	...	...	...	...	...
18_Debt securities (short term, original maturity)	...	...	...	...	...
19_Debt securities held by nonresidents	...	...	...	...	...
20_Debt securities (short term, original maturity)	...	...	...	...	...
21_Debt securities held by nonresidents	...	...	...	...	...
22_Debt securities (short term, original maturity)	...	...	...	...	...
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34_Debt securities (short term, original maturity)	...	...	...	...	...
35_Debt securities held by nonresidents	...	...	...	...	...
36_Debt securities (short term, original maturity)	...	...	...	...	...
37_Debt securities held by nonresidents	...	...	...	...	...
38_Debt securities (short term, original maturity)	...	...	...	...	...
39_Debt securities held by nonresidents	...	...	...	...	...
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41_Debt securities held by nonresidents	...	...	...	...	...
42_Debt securities (short term, original maturity)	...	...	...	...	...
43_Debt securities held by nonresidents	...	...	...	...	...
44_Debt securities (short term, original maturity)	...	...	...	...	...
45_Debt securities held by nonresidents	...	...	...	...	...
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49_Debt securities held by nonresidents	...	...	...	...	...
50_Debt securities (short term, original maturity)	...	...	...	...	...
51_Debt securities held by nonresidents	...	...	...	...	...
52_Debt securities (short term, original maturity)	...	...	...	...	...
53_Debt securities held by nonresidents	...	...	...	...	...
54_Debt securities (short term, original maturity)	...	...	...	...	...
55_Debt securities held by nonresidents	...	...	...	...	...
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57_Debt securities held by nonresidents	...	...	...	...	...
58_Debt securities (short term, original maturity)	...	...	...	...	...
59_Debt securities held by nonresidents	...	...	...	...	...
60_Debt securities (short term, original maturity)	...	...	...	...	...
61_Debt securities held by nonresidents	...	...	...	...	...
62_Debt securities (short term, original maturity)	...	...	...	...	...
63_Debt securities held by nonresidents	...	...	...	...	...
64_Debt securities (short term, original maturity)	...	...	...	...	...
65_Debt securities held by nonresidents	...	...	...	...	...
66_Debt securities (short term, original maturity)	...	...	...	...	...
67_Debt securities held by nonresidents	...	...	...	...	...
68_Debt securities (short term, original maturity)	...	...	...	...	...
69_Debt securities held by nonresidents	...	...	...	...	...
70_Debt securities (short term, original maturity)	...	...	...	...	...
71_Debt securities held by nonresidents	...	...	...	...	...
72_Debt securities (short term, original maturity)	...	...	...	...	...
73_Debt securities held by nonresidents	...	...	...	...	...
74_Debt securities (short term, original maturity)	...	...	...	...	...
75_Debt securities held by nonresidents	...	...	...	...	...
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78_Debt securities (short term, original maturity)	...	...	...	...	...
79_Debt securities held by nonresidents	...	...	...	...	...
80_Debt securities (short term, original maturity)	...	...	...	...	...
81_Debt securities held by nonresidents	...	...	...	...	...
82_Debt securities (short term, original maturity)	...	...	...	...	...
83_Debt securities held by nonresidents	...	...	...	...	...
84_Debt securities (short term, original maturity)	...	...	...	...	...
85_Debt securities held by nonresidents	...	...	...	...	...
86_Debt securities (short term, original maturity)	...	...	...	...	...
87_Debt securities held by nonresidents	...	...	...	...	...
88_Debt securities (short term, original maturity)	...	...	...	...	...
89_Debt securities held by nonresidents	...	...	...	...	...
90_Debt securities (short term, original maturity)	...	...	...	...	...
91_Debt securities held by nonresidents	...	...	...	...	...
92_Debt securities (short term, original maturity)	...	...	...	...	...
93_Debt securities held by nonresidents	...	...	...	...	...
94_Debt securities (short term, original maturity)	...	...	...	...	...
95_Debt securities held by nonresidents	...	...	...	...	...
96_Debt securities (short term, original maturity)	...	...	...	...	...
97_Debt securities held by nonresidents	...	...	...	...	...
98_Debt securities (short term, original maturity)	...	...	...	...	...
99_Debt securities held by nonresidents	...	...	...	...	...
100_Debt securities (short term, original maturity)	...	...	...	...	...

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**The  
London Club  
of debt restructuring**



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### WHAT IS THE « LONDON CLUB »?

- ▶ Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- ▶ The London Club has evolved as an ad hoc forum for restructuring negotiations.
- ▶ Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- ▶ Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- ▶ The IIF plays a key role in London Club meetings:  
BOP and debt analysis!



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### WHAT IS THE IIF?

- ▶ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions.
- ▶ Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ▶ Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- ▶ The Institute has > **450 members** headquartered > 70 countries.

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### MENU-BASED DEBT RESTRUCTURING

THE BRADY PLAN AND BEYOND



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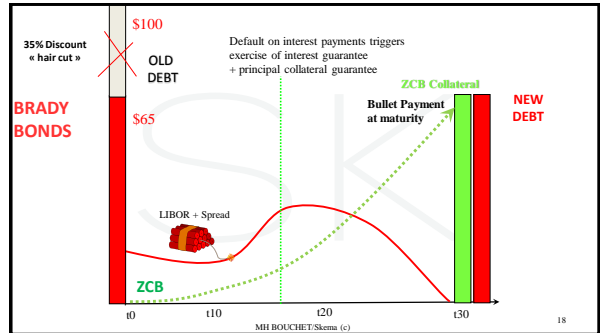
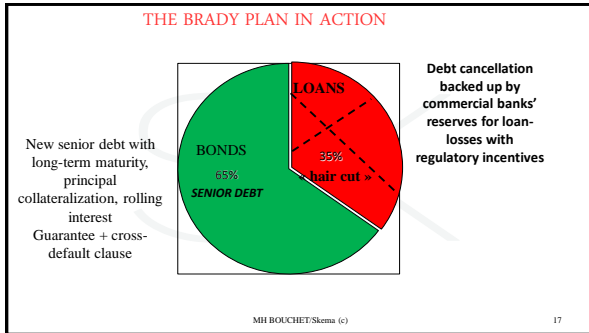
### THE 1989-2017 BRADY PLAN OF LONDON CLUB DEBT RESTRUCTURING

- ▶ **London Club banks** grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- ▶ Accounting and regulatory incentives (loan-loss provisioning)
- ▶ Shift to specific purpose financing and voluntary lending
- ▶ **Debtor countries** adopt tough macroeconomic adjustment programs under the monitoring of the IMF/WB (SALS)
- ▶ Current account financing + Reserve build-up
- ▶ Objective: back to market-access for EMCs or to grants for low-income countries

Means and Tools

- ▶ Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- ▶ Principal guarantee + x semi-annual interest payments, whose guarantee is rolled over
- ▶ **Bullet repayment** (e.g., 30 years)
- ▶ **Cross-default clause**
- ▶ **Debt conversion clauses**

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- ### Types of Brady Bonds
- ▶ **Buybacks at discount**
  - ▶ **Par Bonds** *Maturity:* Registered 30 year bullet issued at par *Coupon:* Fixed rate semi-annual below market coupon *Guarantee:* Rolling interest guarantees from 12 to 18 months. Principal collateralized by U.S. Treasury zero-coupon bonds
  - ▶ **Discount Bonds (DB)** *Maturity:* Registered 30 year bullet amortization issued at discount *Coupon:* Floating rate semi-annual LIBOR *Guarantee:* Rolling interest guarantees from 12 to 18 months.
  - ▶ **Front Loaded Interest Reduction Bonds (FLIRB)** *Maturity:* Bearer 15 to 20 year semi-annual bond. Bond has amortization feature in which a set proportion of bonds are redeemed semi-annually. *Coupon:* LIBOR market rate until maturity. *Guarantee:* Rolling interest guarantees generally of 12 months available only the first 5 or 6 years.
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- ### TYPES OF BRADY BONDS
- ▶ **Debt Conversion Bonds (DCB)** *Maturity:* Bearer bonds maturing between 15-20 years. Bonds issued at par. *Coupon:* Amortizing semi-annual LIBOR market rate. *Guarantee:* No collateral is provided
  - ▶ **New Money Bonds (NMB)** *Maturity:* Bearer bonds maturing 15-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
  - ▶ **Past Due Interest (PDI)** *Maturity:* Bearer bonds maturing 10-20 years. *Coupon:* Amortizing semi-annual LIBOR. No collateral
  - ▶ **Capitalization Bonds (C-Bonds)** Issued in 1994 by Brazil's Brady plan. *Maturity:* Registered 20 year amortizing bonds initially offered at par. *Coupon:* Fixed below market coupon rate stepping up to 8% during the first 6 years and holding until maturity. Both capitalized interest and principal payments are made after a 10 year grace period.
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**VIETNAM = LONDON CLUB DEBT RESTRUCTURING**

Brady debt restructuring (12/97)=

- ▶ (P= 335 million) + (PDI= 515) *interest arrears*  
= **\$850 million**
- ▶ 30-year bonds with 50% discount + par bonds + buyback at 44%

Paris Club Debt Restructuring 12/1993:  
**LONDON Terms = 54% debt reduction**

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**THE BRADY PLAN OF DEBT RESTRUCTURING**



NICHOLAS BRADY  
TREASURY SECRETARY

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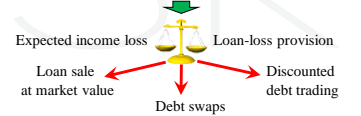
**IS THERE LIFE AFTER ARREARS AND DEBT DEFAULT?**

Bank loans may be delinquent on their repayments or in default of the loan entirely = Loss for the bank on expected income

Arrears + Default = Accounting losses in banking portfolios

Loan-loss reserves (provisions against NPLs)

In the event of a default, no loss in cash flows= the bank will use the amount set aside to cover the loss. The provision is tax deductible and can be used in the bank's capital (Bale III)



Expected income loss      Loan-loss provision

Loan sale at market value      Discounted debt trading

Debt swaps

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**LEGAL CLAUSES AND CONVENANTS IN DEBT RESTRUCTURING NEGOTIATIONS**

- ▶ Waiver on negative pledge clause: i prevents a borrower from pledging any assets if doing so would jeopardize the lender's security : risk of subordination with regard to a senior status lender!
- ▶ It ensures **financial equality** and democracy in a community of creditors
- ▶ In Brady deals, the Paris Club, the IMF and the World Bank waive the clause

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SNAPSHOT AT VIETNAM'S GOVERNMENT SECURITIES

Issuer	Coupon	Maturity	Series	Rtg	Freq	Qty	Type	Contry	Curr	Ask	Px
1)VIETNAM (REP OF)	6.875	01/15/16	REGS	B+	S/A	BULLET	VN	USD	106.2500		
2)VIETNAM (REP OF)	6.875	01/15/16	144A	B+	S/A	BULLET	VN	USD	106.2500		
3)VIETNAM-POI	VAR	03/12/16	US	NR	S/A	SINKABLE	VN	USD	N.A.		
4)VIETNAM-POI	VAR	03/12/16	189R	NR	S/A	SINKABLE	VN	USD	88.0000		
5)VIETNAM (REP OF)	6.750	01/29/20	REGS	B+	S/A	BULLET	VN	USD	101.5000		
6)VIETNAM (REP OF)	6.750	01/29/20	144A	B+	S/A	BULLET	VN	USD	102.2500		
7)VIETNAM-PAR	3.750	03/12/20	US	NR	S/A	CALL/SINK	VN	USD	N.A.		
8)VIETNAM-PAR	4.000	03/12/20	309R	B+	S/A	CALL/SINK	VN	USD	75.0000		
9)VIETNAM-DISC	FLOAT	03/12/20	309R	B+	S/A	BULLET	VN	USD	84.0000		
10)VIETNAM-DISC	FLOAT	03/12/20	US	NR	S/A	BULLET	VN	USD	N.A.		
11)VIETNAM-DI LOAN	0.000	12/29/49	DM	NR	S/A	CALL/SINK	VN	DEM	N.A.		
12)VIETNAM-US\$ LOAN	0.000	12/29/49	US\$	NR	S/A	CALL/SINK	VN	USD	N.A.		

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VIETNAM'S 30-YEAR BRADY BOND 1998-2028 (AS OF 10-2017)

VIETNAM Float	03/12/28	\$187,500	+ 000	86,500 / 88,500	45,493 / 33,510
VIETNAM Float	03/12/28	03/12/28	Settings	Page 1/31	Security Description: Bond
Issue Date	03/12/1998	03/12/2028	03/12/2028	03/12/2028	03/12/2028
Issuer	SECURITIES REP OF VIETNAM		ID Number	TT1209548	
Industry	Sovereign		ISIN	XS0885134574	
Security Information	Brady		FIGI	BBG00W03C1D8	
Country	VN		Currency	USD	
Rank	Secured		Series	30YR	
Coupon	2.350000		Type	Floating	
Formula	S/A US LIBOR +81.2500		Composite	BB-	
Day Cnt	ACT/360		Issuance & Trading	Aggregated Amount Issued/Out	
Maturity	03/12/2028		USD	24,552.00 (10) /	
Calc Type	(5)S)BRADY-FLT RIG YLD		USD	24,552.00 (10)	
Prng Date	03/12/1998		Min Piece/Increment	1,000.00 / 1,000.00	
Int Accrual Date	03/12/1998		Par Amount	1,000.00	
List Settle Date	03/12/1998		Book Runner	BANK	
List Coupon Date	09/15/1998		Exchange	LUXEMBOURG	
CPN RATE	4.6M US\$ LIBOR +81.25BP		PRIN SEC D BY	U.S. 30YR ZERO'S 6MD ROLLING INT	
CPY	0.00				

Floating-rate US\$ Brady bond, with principal repayment secured by 30-year zero-coupon US\$ bond collateral + rolling interest payment guarantee

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THE GREEK 2011-13 MENU-BASED « BRADY DEBT RESTRUCTURING » = 65% « HAIR CUT »

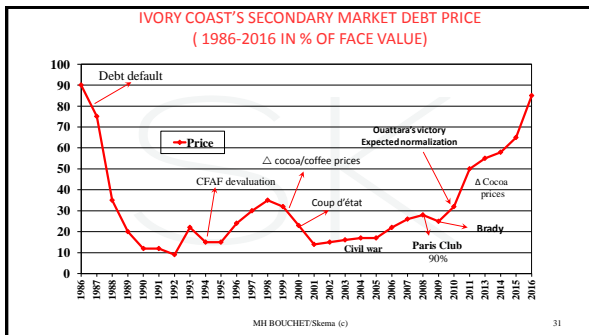
1. Par Bond Exchange into a 30 year instrument (4% coupon)
  2. Par Bond with refinancing of rolling-over maturing Greek government bonds over 30 years
  3. Discount Bond Exchange into a 30 year instrument with 20% discount and 5% coupon
  4. Discount Bond Exchange into a 15 year instrument with 5,9% coupon
  5. Buyback at 35% price (65% discount) of London Club debt (11/2012)
- For instruments, 1, 2 and 3 the principal is fully collateralized by 30 year zero coupon AAA Bonds.
- For instrument 4, the principal is partially collateralized through funds held in an escrow account.
- Calculation: HF & <http://www.voxeu.org/index.php?q=node/6818>

CHALLENGES OF THE GREEK DEBT RESTRUCTURING WORKOUT 2011-17

- 1. *Pari passu*: Private investors insist that government bail-out lenders would be treated the same way as the private sector, to lessen the risk of another cut in their payouts down the line
- 2. New bonds issued to private investors as part of the hair cut to be governed by London rather than Greek law
- 3. Threat of free riders and legal actions: VEGA Hedge Fund



- IVORY COAST'S BANK DEBT RESTRUCTURING SAGA**
- 03/1998 - Ivory Coast issued six bonds totalling \$2.4 billion under the Brady scheme in a restructuring of outstanding external commercial debt.
  - 09/2000 - Default on the bonds, following a coup in 1999.
  - 03/2009 - The IMF and the World Bank declared Ivory Coast eligible for debt relief under the HIPC (highly indebted poor countries) initiative.
  - 03/2009 - Paris Club agreement leading to immediate cancellation of \$845 million in debt (**80% debt relief**)
  - 04/2010 - Debt exchange of the defaulted Brady bonds, replacing the old bonds with a \$2.3 billion bond due 2032, with semi-annual coupon payments and 6-year grace period (2016): discount of 20 percent on the exchangeable debt.
  - 11/2010 - Presidential run-off ballot : Gbagbo is declared winner = civil war
  - 12/2010 - World Bank freezes funding
  - 12/2010 - Ivory Coast does not make \$29 million coupon payment on \$2.3 billion bond. Failure to pay = "event of default"
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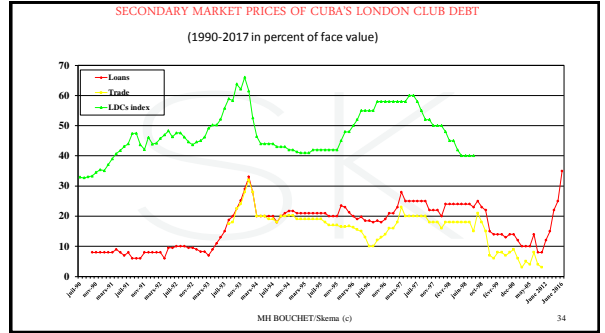


- UKRAINE'S DEBT RESTRUCTURING**  
09/2015
- ▶ 20% write off on \$18 billion of bonds, condition for the IMF to press ahead with 4-year \$40 billion package
  - ▶ Main creditors: PTG Pactual, T Rowe Price, TCW, Franklin Templeton...
  - ▶ Inclusion of GDP-linked instrument
  - ▶ Between 2021-40 investors will receive up to 40% of the value of economic growth > 4%
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**BRADY BONDS PRICES AFTER RESTRUCTURING NEGOTIATIONS**

▶ Arg Par	48.000	50.000
▶ Arg FRB	41.000	42.000
▶ Arg '27	31.000	33.000
▶ Brz C	75.250	75.437
▶ Brz '27	72.750	73.000
▶ Bul IAB	85.000	85.500
▶ Mex Par	93.000	93.250
▶ Pol Par	75.250	76.250
▶ Rus '28	107.750	108.000
▶ Ven DCB	78.250	78.750
▶ Vie Par	44.000	45.000

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**HYPER-EXOTIC DEBT PRICES**

▶ Myanmar 20%
▶ Cambodia 20%
▶ Mongolia 22%
▶ North Korea 10%
▶ Argentina (2033 bonds)= 62% following ruling by NY court in 11/2012)
▶ Cuba Loans 10-35%
▶ Cuba Trade 15%
▶ Albania 36%
▶ Bosnia 36%
▶ Serbia 44%
▶ Irak Bonds 90%
▶ Libya 25-35%
▶ Syria 6-11%
▶ Yemen 30%
▶ Angola 60%
▶ Ethiopia 60%
▶ Senegal 35%
▶ Sudan 11-14%
▶ Uganda 14-16%
▶ Zimbabwe 1-4%

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**EMCS SECONDARY MARKET DEBT PRICES**

COUNTRY / ISSUE	Low Price	High Price
<b>Africa Hyper-Exotics</b>		
Anglia / Trade	50.000%	55.000%
Anglia / Loans	55.000%	59.000%
Cameroon / Trade (non-HPC)	14.000%	20.000%
Congo / Trade (non-HPC)	23.000%	28.000%
DRC Congo / Loans, Trade (non-HPC)	14.000%	20.000%
Ghana / Trade (non-HPC)	78.000%	82.000%
Kenya / Trade	39.000%	49.000%
Mozambique / Trade (non-HPC)	20.000%	24.000%
Senegal / Loans, Trade (non-HPC)	12.000%	14.000%
Sudan / Loans (non-HPC)	11.000%	14.000%
Tanzania / Loans, Trade (non-HPC)	10.000%	13.000%
Uganda / Trade (non-HPC)	14.000%	14.000%
Zambia / Loans, Trade (non-HPC)	13.000%	20.000%
Zimbabwe / Trade	1.000%	4.000%
<b>Eastern Europe Hyper-Exotics</b>		
Azerbaijan / Trade	18.000%	23.000%
Bosnia / Trade	36.000%	41.000%
Georgia / Trade	11.000%	15.000%
Serbia / Trade	44.000%	54.000%
Turkmenistan / Trade	23.000%	33.000%
Ukraine / Trade	18.000%	25.000%
Uzbekistan / Trade	20.000%	24.000%
<b>Middle East Hyper-Exotics</b>		
Egypt / Trade	43.000%	73.000%
Iraq / Paris Club	84.000%	89.000%
Iraq / Bonds	91.000%	92.000%
Libya / Trade	25.000%	35.000%
Syria / Trade	6.000%	11.000%
<b>Latin America &amp; Caribbean Hyper-Exotics</b>		
Cuba / Trade	2.000%	4.000%
Cuba / Loans	5.000%	10.000%
Suriname / Loans, Trade	14.000%	18.000%
<b>Asia Hyper-Exotics</b>		
Mongolia / Trade	22.000%	30.000%
North Korea / Loans, Certificates	9.000%	12.000%

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Weak Liquidity:

Angola, Nicaragua, Cameroon, Albania, Congo, Tanzania, Zaire (Rep. Democr.), Zambia, Iraq, North Korea

Limited Liquidity:

Cuba, Egypt, Jordan, Madagascar, Panama, Jamaica, Ivory Coast, Senegal

Moderate Liquidity:

Nigeria, Morocco, Costa Rica, Bulgaria, Peru, Russia, Vietnam

Good Liquidity

Brady Bonds + Eurobonds= Argentina, Brazil, Ecuador, Mexico, Philippines, Poland, Venezuela. South Africa, Turkey

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## Debt trading and EMTA

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For Immediate Release

**EMTA SURVEY:  
QUARTERLY EMERGING MARKETS DEBT TRADING  
AT US\$1.132 TRILLION**

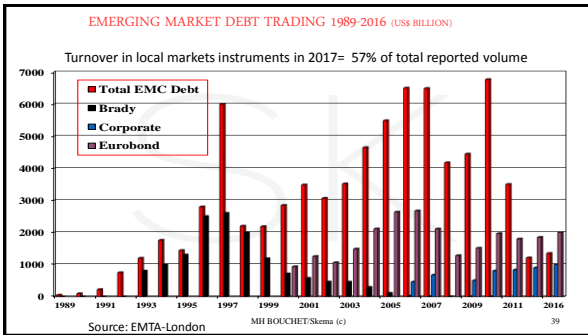
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Volumes Decline 17% on Year-on-Year Basis

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NEW YORK, September 19, 2017—Emerging Markets debt trading volumes stood at US\$1.132 trillion in the second quarter of 2017, according to a report released today by EMTA, the trade association for the Emerging Markets debt trading and investment industry. This compares with US\$1.357 trillion reported for the second quarter of 2016, a 17% decrease, and down 14% from US\$1.323 trillion reported in the first quarter.

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### WHO'S WHO IN HIGHLY DISCOUNTED AND EXOTIC DEBT TRADING?

- Trading:** FH International (Eric Herman), Omni Bridgeway (Amsterdam, Geneva, Singapore, London, Guernsey), MarketAxess, Société Générale, BNP, Lazard Brothers
- Holdout creditors** and « *vulture funds* »: hedge funds that seek to enforce contractual claims against distressed sovereign debtors through litigation: they buy defaulted government debts on the cheap and refuse to join in a restructuring, “holding out” for a better deal and sue for the full amount (*pari passu clauses* promise equal treatment of creditors preventing EMCs from paying its restructured bondholders but not hedge funds: i.e., borrower’s promise to ensure that the obligations will always rank equally in right of payment)
- Key players: NML Capital (Argentina), Paul E. Singer’s Elliott Capital Management (Argentina), Aurelius Capital Management (Argentina’s 2001 \$132 billion default, Peru), Franklin Templeton, BlueMountain Capital, Stone Lion Capital, Monarch Alternative Capital, Canyon Capital, First Tree Partners, Marathon Asset Management (Puerto Rico, Greece), Dart (Brazil), Greylock Capital (Venezuela).

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**DEBT COLLECTION, ASSET TRACING AND DEBT TRADING**



**Omni Bridgeway**



**Debt Recovery**

Debt recovery/collection:

- "Softball" Consensual Debt Collection: through amicable means
- "Hardball" - non consensual debt collection: through legal means
- "Passing the ball" to investor: sale of the debt

MH BOUCHET/Skema (c)



**Recovery case: National Bank of Ukraine**

1. Summons to pay to National Bank of Ukraine. No full payment followed
2. Concerted attachments were effectuated in France, Germany, Luxembourg and The Netherlands.
3. Assets attached > amount owed
4. Main legal proceedings initiated.
5. National Bank of Ukraine forced to the negotiating table to reach an amicable settlement.
6. A settlement agreement was signed between the creditor and the National Bank of Ukraine for the amount of USD 13 million (i.e. full principal amount *plus* overdue interest).

MH BOUCHET/Skema (c)



**Recovery Case: Zimbabwe**

Country : Zimbabwe

Lender : West European Bank

Borrower : Ministry of Health and Ministry of Finance

Principal : EUR 25 million, maturity 1993-2000

Award : No

Solution: Asset tracing and subsequent attachments in various western jurisdictions

Negotiation started soon after attachments were made.

Recovery within one year :

- approx. EUR 10 million +
- for the remainder: restructuring agreement with improved conditions

MH BOUCHET/Skema (c)

**TRADING VOLUME BY INSTRUMENT TURNOVER**

Bradys transactions which accounted for 50% of debt trading in the mid-1990s have shrunk due to early redemption, exchange offers and debt buybacks

Instrument	Percentage
Brady	56%
Eurobonds	21%
Local	10%
Corporate	2%

MH BOUCHET/Skema (c)

THE EVOLVING STRUCTURE IN THE SECONDARY DEBT MARKET

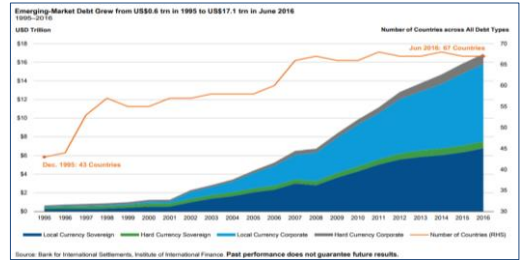
MARKET SHARE COMPARISON

	2005	1997
Eurobonds	48%	23%
Local Instruments	47%	25%
Options and Warrants	2%	6%
Brady Bonds	2%	41%
Loans	>1%	5%

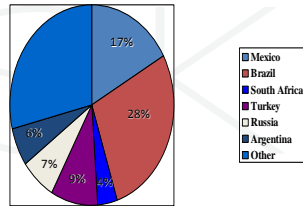
Source: EMTA



EMERGING MARKET LOCAL CURRENCY BONDS 1995-2017



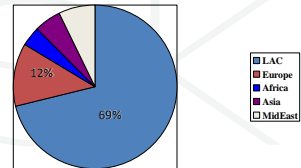
TRADING VOLUME BY COUNTRY (EMTA)



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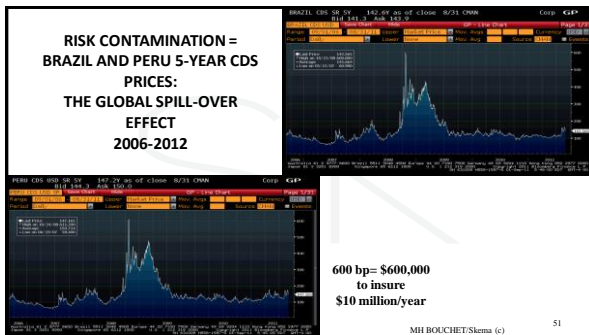
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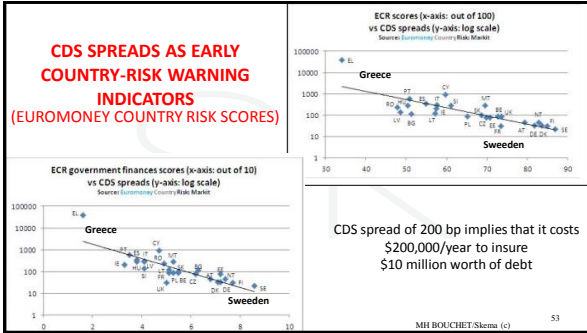
TRADING VOLUME BY REGION

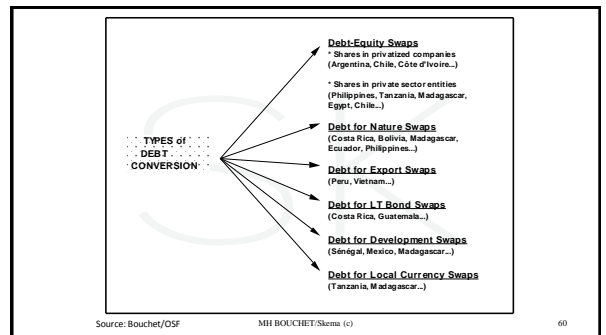
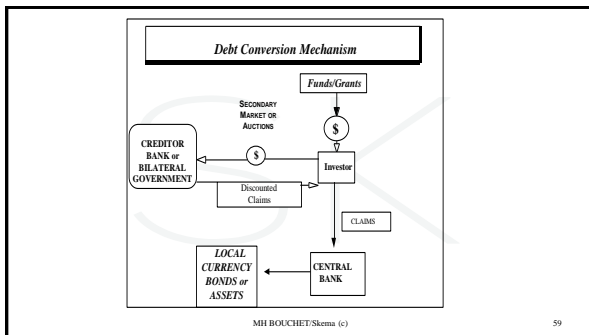
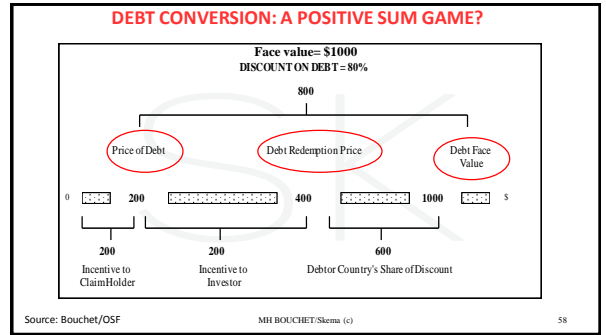
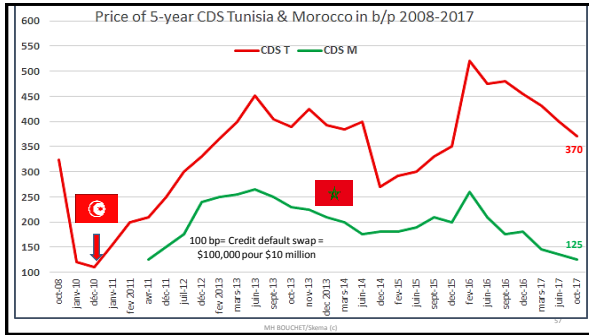


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### CORPORATE DEBT SWAP TRANSACTIONS

- ▶ 04/2001: South Korea's largest builder HEC (Hyundai Engineering & Constr.) makes a debt swap with its creditors to reduce debt ratios from **1240 % to 250%**, by issuing new shares and bonds to creditors as a part of the rescue package after Hyundai reported losses >US\$2.2 billion that wiped out its equity capital!

MH BOUDET/Slama (C)

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### POSITIVE SUM GAME!

- ▶ Debtor: debt cancellation with local currency payments while stimulating foreign direct investment and enhancing the role of private sector activity in the local economy (privatization)
- ▶ Creditor: cleaning up of portfolio with upfront cash payment while accounting losses get absorbed by loan-loss reserves
- ▶ Investor: access to local currency at a discounted exchange rate that boils down to an investment subsidy, thereby mitigating the overall country risk and the specific project risk

Slama   