INTERNATIONAL MONETARY FUND

Progress Report to the International Monetary and Financial Committee on Crisis Resolution

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I. INTRODUCTION

1. In its recent Communiqué, the International Financial and Monetary Committee (IMFC) welcomed the inclusion of collective action clauses (CACs) by an increasing number of countries in their international sovereign bonds and called on the Fund to promote the voluntary use of CACs by other countries.[1] The committee also encouraged the Fund to continue to contribute to the efforts led by sovereign debtors and private creditors to develop a voluntary Code of Conduct. It looked forward to the ongoing work on issues of general relevance to the orderly resolution of financial crises, including the use of aggregation clauses.

2. Against this background, this report focuses on crisis resolution initiatives under the existing legal framework. Section II describes progress in the use and design of CACs, developments in the adoption of aggregation clauses and efforts being undertaken by the Fund toward encouraging the use of CACs in international sovereign bonds.[2] Section III reports on recent efforts to develop a voluntary Code of Conduct for sovereign debtors and their creditors. Section IV briefly discusses issues relating to litigation against sovereign debtors. Section V discusses progress in the new "Evian Approach" recently agreed by the Paris Club, and Section VI summarizes progress. This report does not address ongoing debt restructuring negotiations between sovereign debtors and their creditors or the Fund's lending policies, including those on exceptional access and lending into arrears to private creditors.[3]

II. COLLECTIVE ACTION CLAUSES

A. Developments in Market Practice

3. In response to the recent calls for greater use of CACs, an increasing number of emerging market countries have taken steps to include such clauses in their international sovereign bonds issued under New York law, where until recently they have not been the market standard. During the latter part of 2003 and early 2004, sovereign issues containing

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[1] *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund*, Dubai, September 21, 2003 http://www.imf.org/external/np/cm/2003/092103a.htm.

[2] In this paper, the term "collective action clauses" (CACs) is used to refer to clauses that include both majority restructuring and majority enforcement provisions. The term "international sovereign bonds" means a bond that is governed by a foreign law or subject to the jurisdiction of a foreign court.

[3] Developments in the Fund's lending operations, including exceptional access, are discussed in the *Report of the Acting Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda* (SM/04/111 Rev. 1, 4/19/04).

CACs grew to represent more than 75 percent of total value of bonds issued in that period,[4] largely reflecting the increasing number of sovereign bonds issued under New York law that included CACs. There are, however, variations in the clauses used.

4. Since August 2003, New York law sovereign bonds issued by 11 emerging market countries have included CACs (Table 1).

- In September and November 2003, Turkey and Peru included CACs in their bonds governed by New York law, respectively. These were the first non-investment grade countries to issue New York law bonds with CACs that are consistent with the G-10 recommendations, as discussed below. This represented a change in market practice with respect to previous non-investment grade issuers, since previously such issues had included higher voting thresholds for majority restructuring clauses (e.g., 85 percent in the cases of Belize, Brazil, and Guatemala). Both issues were priced very tightly in relation to the yield curve, and there was no evidence that the market had priced in a lower voting threshold.

- Following this, in the latter part of 2003 and early 2004,[5] Chile, Colombia, Costa Rica, Indonesia, Israel, Panama, the Philippines, Poland, and Venezuela issued global bonds governed by New York law that included CACs. All issues were heavily oversubscribed and priced broadly along the yield curve.[6] [7]

[4]This represents about 70 percent of total issues, by count.

[5]There were also two new issues by Mexico, and three new issues by Brazil already included CACs in their issues during the first half of 2003, and a second issue by Turkey.

[6]Only in the case of Colombia were spreads somewhat above the current yield curve. However, market participants reported this was entirely the effect of high volumes of emerging market debt placed earlier in the week, while none of the press reports mentioned that CACs had been included in the bonds.

[7]In the case of the Philippines, the new bonds were issued in exchange for existing series, but investor participation in the exchange was very low. Reportedly, this reflected investors' uneasiness about extending duration ahead of the presidential elections, while press reports did not mention the inclusion of CACs in the exchanged bonds.

Table 1. Emerging Markets Sovereign Bond Issuance by Jurisdiction 1/

	2001				2002				2003				2004 4/
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 5/	Q3	Q4	Q1
With CACs 2/													
Number of issuances	14	10	2	10	6	5	2	4	9	31	10	5	22
of which: New York law		1							1	22	5	4	14
Volume of issuances	5.6	4.8	1.8	2.2	2.6	1.9	0.9	1.4	5.6	18.0	6.4	4.3	17.3
of which: New York law		1.5							1.0	12.8	3.6	4.0	10.6
Without CACs 3/													
Number of issuances	16	17	6	18	17	12	5	10	14	4	7	7	2
Volume of issuances	6.7	8.5	3.8	6.1	11.6	6.4	3.3	4.4	8.1	2.5	3.5	4.2	1.5

Source: Capital Data.

1/ Volume of issuances is in billions of U.S. dollars.

2/ English and Japanese laws, and New York law where relevant.

3/ German and New York laws.

4/ Data for 2004-Q1 are as of March 23, 2004.

5/ Includes issues of restructured bonds by Uruguay.

- In April 2004, the Central Bank of Brazil announced that it would lower to 75 percent the voting threshold for the majority restructuring provision for its future issues under New York Law. This confirms that market practice under New York Law is evolving in line with G-10 recommendations.

- In the view of the staff, there is no evidence that the issue prices included a premium for CACs, an opinion generally shared by private market participants, as sovereign yield curves of selected countries do not show a yield premium for the inclusion of CACs (Figure 1).[8] A background of high international liquidity undoubtedly favored all emerging market bond issues, including those with CACs.

5. Since August 2003, with the exception of Italy that had already included CACs in its early 2003 issue, there have been no new issues under New York law by mature market issuers.

6. During the second half of 2003 and early 2004, there were no issues under Japan law. A number of international sovereign bonds were issued under English law including CACs, as has long been the standard practice in this market. Emerging market issuers included Croatia, Hungary, Lithuania, Pakistan, Poland, the Slovak Republic, Tunisia, and Ukraine, and mature market issuers included Austria, Iceland, New Zealand, Norway, and Sweden. Table 2 provides information on the outstanding stock of emerging market bonds across various jurisdictions.

7. While sovereign issues under New York law are clearly moving towards including CACs as the standard market practice, bond issues under German law continued to lack CACs. Legislation is now under consideration that is intended to dispel any perceived legal uncertainty about the inclusion of CACs in German law bonds.[9] Bond issues under German law, however, have become very scarce, with only Jamaica and Turkey issuing since August 2003 (Table 2).

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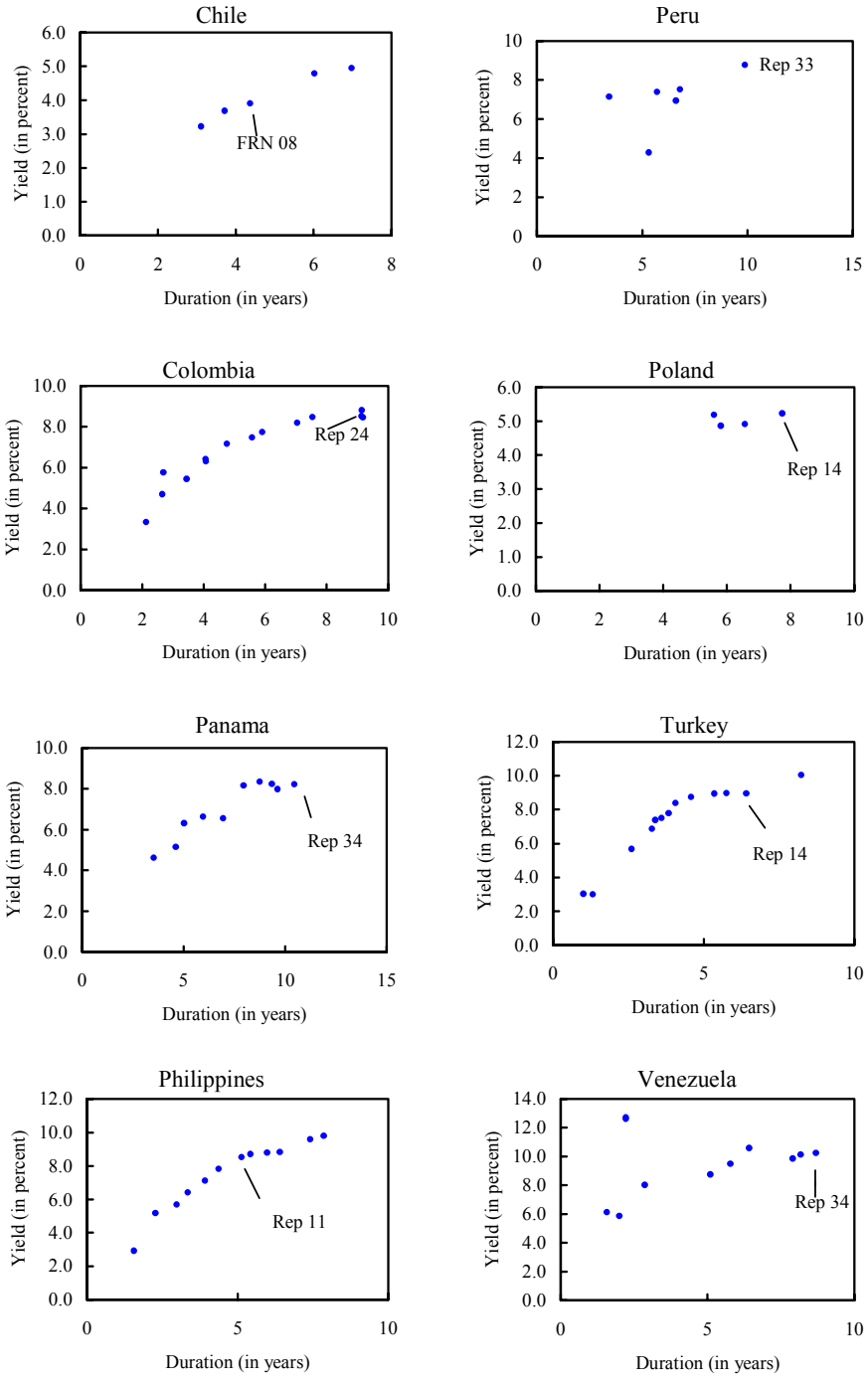
[8]See also Eichengreen and Mody, "Bail-ins and Borrowing Costs," IMF Staff Papers, Volume 47, and "Would Collective Action Clauses Raise Borrowing Costs: An Update and Additional Results," Policy Research Working Paper No. 2363, World Bank, May 2000; and Gugiatti and Richards, "Do Collective Action Clauses Influence Bond Yields? New Evidence from Emerging Markets", International Finance 6: 3 2003; pp. 415-447.

[9]Legislative work aiming at the elimination of perceived legal risk in the usage of CACs under German law is underway. The Ministry of Justice is expected to present a draft act to parliament containing the following three elements: (i) allow in the Civil Code for either statutory CACs with the possibility of a total or partial opt-out or optional CACs, enabling parties to use such clauses, if they so desire (opt-in); (ii) a repeal of the German bond indenture act of 1899; and (iii) a repeal of the applicability of consumer protection laws to bonds with respect to "unfair terms in conditions".

Figure 1. Selected Yield Curves: Bonds Including CACs



Source: Merrill Lynch.

Table 2. Emerging Market Sovereign Bonds
Outstanding Stock by Governing Law

	Number of Issuances		Face Value of Issuances	
	(in number)	(in percent)	(in billions of U.S. dollars)	(in percent)
New York	389	59	227	63
English	163	25	93	26
German	63	10	27	7
Japan	47	7	15	4
Total	662	100	362	100
of which: including CACs	257	39	141	39

Source: Capital Data; and IMF staff estimates (as of March 23, 2004).

8. Only very few international sovereign bonds issued by emerging market countries under New York law since August 2003 did not contain CACs. This group of issuers includes China, the Philippines, and Venezuela. However, in early 2004, the Philippines and Venezuela issued bonds which included CACs, while the Chinese authorities have indicated their interest to discuss further with Fund staff technical issues related to CACs.

B. Design of CACs in Recent Issues

9. Since mid-2002, the Executive Board has repeatedly encouraged the inclusion of CACs in international sovereign bonds and, in particular in those governed by New York law where they have not been the market standard. Directors, while recognizing that it was too early to reach a definitive view on the degree of standardization, agreed that it would be appropriate to continue existing practice in the London market and encouraged the use in New York law bonds of CACs that are broadly in line with the provisions recommended by the G-10 Working Group.[10] [11] Directors, however, recognized that, given the contractual

[10] *Report of the G-10 Working Group on Contractual Clauses*, 9/26/02, www.bis.org/publ/gten08.htm.

[11] In particular, Directors considered it reasonable to set the voting threshold at 75 percent of outstanding principal with respect to majority restructuring provisions contained in bonds governed by New York law. Directors generally viewed as reasonable the thresholds for

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nature of CACs, any decision concerning the inclusion and design of CACs will ultimately be made by the issuer and its creditors. Table 3 contains a summary of the CACs contained in recent New York law bonds and a comparison of these clauses with the recommendations of the G-10 Working Group.[12]

10. With respect to majority restructuring provisions, recent New York law bonds differ on the voting threshold for amending key terms.

- The bond issuances of Chile, Colombia, Costa Rica, Indonesia, Israel, Italy, Mexico, Panama, Peru, the Philippines, Poland, and Turkey adopted a 75 percent voting threshold.

- Issuances by Brazil and Venezuela relied upon an 85 percent voting threshold.

- All these recent bond issues, except those of Chile and Poland, contain an expanded disenfranchisement provision that excludes bonds that are held by public sector instrumentalities, in addition to those held by the sovereign issuer, for quorum and voting purposes, which is consistent with the G-10 recommendations.[13]

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majority enforcement provisions that have already been generally accepted in New York law governed bonds, namely a vote of 25 percent of outstanding principal to accelerate the claims following a default and a vote of more than 50 and up to 66 ⅔ of outstanding principal to reverse an acceleration of these claims. See *The Acting Chair's Summing Up: Collective Action Clauses—Recent Developments and Issues* (BUFF/03/52, 4/10/03).

[12]See *Collective Action Clauses—Recent Developments and Issues* (SM/03/102, 03/25/03) for a detailed comparison of the design of CACs recommended by the G-10 Working Group and those contained in certain recent New York law bonds.

[13]While the disenfranchisement provisions contained in the Chilean and Polish bonds do not specifically refer to public sector instrumentalities, they use the control concept (i.e., exclusion of bonds controlled directly or indirectly by the issuer).

Table 3. Collective Action Clauses: G-10 Recommendations and Recent New York Law Governed Bonds

Provisions	G-10 recommendations	Chile, Colombia, Costa Rica, Indonesia, Israel, Italy, Mexico, Panama, Peru, Philippines, Poland, Turkey	Brazil, Venezuela
Amendment of Key Terms	75 percent based on either outstanding principal or duly convened meeting.	75 percent based on outstanding principal (including governing law and submission to jurisdiction).	85 percent based on outstanding principal (including governing law and submission to jurisdiction).
Disenfranchise-ment	Bonds owned or controlled directly or indirectly by the issuer or its public sector instrumentalities.	• Colombia, Costa Rica, Indonesia, Israel, Italy, Mexico, Panama, Peru, Philippines and Turkey: bonds owned directly or indirectly by the issuer or its public sector instrumentalities. • Chile: bonds owned by Chile or any other obligor or any person directly or indirectly controlled by Chile, or controlling or controlled by or under direct or indirect common control with any other obligor on the notes. • Poland: bonds owned or controlled directly or indirectly by the issuer.	Bonds owned directly or indirectly by the issuer or its public sector instrumentalities.
Acceleration	Trustee has the discretion, but is required at the request of typically 25 percent, to accelerate.	• Chile, Colombia, Costa Rica, Israel, Italy, Mexico, Panama, Peru, Philippines and Turkey: 25 percent. • Indonesia: trustee or 25 percent. • Poland: each bondholder has the right to accelerate upon payment default and moratorium.	25 percent.
De-acceleration	More than 50-66⅔ percent.	• Chile, Colombia, Costa Rica, Indonesia, Israel, Mexico, Peru, and Philippines: more than 50 percent. • Italy, Panama and Turkey: 66⅔ percent. • Poland: None with respect to an acceleration resulted from a payment default or moratorium).	• Brazil: 66⅔ percent. • Venezuela: more than 50 percent.
Initiation of Proceedings	• Mandate the use of trust structure. • 75 percent to instruct the trustee to settle lawsuits.	Any bondholder, except that in the case of Indonesia trustee has discretion, but can instructed by 25 percent to initiate lawsuits.	Any bondholder.
Engagement Provision	• A bondholder representative be appointed for the life of the bond. • 66⅔ percent to appoint *at any time* any person to represent all holders in negotiation with the issuer or other creditors.	None.	None.
Information Provision	A covenant requiring the issuer to provide certain types of information over the life of the bond and following an event of default.	None.	None.
Documentation	Trust or an equivalent legal structure.	Fiscal agency agreement, except that Indonesia used a trust structure.	Fiscal agency agreement.

11. Regarding majority enforcement provisions, all recent bond issues governed by New York law, except Poland, utilized a 25 percent threshold for acceleration.[14] They differ, however, on the threshold for de-acceleration:[15]

- In the cases of Chile, Colombia, Costa Rica, Indonesia, Mexico, Peru, the Philippines, and Venezuela, the threshold is set at more than 50 percent of outstanding principal.

- Issuances by Brazil, Italy, Panama, and Turkey included a 66⅔ percent threshold for de-acceleration.

- The Polish bond does not contain a de-acceleration clause with respect to the payment default and moratorium.

- With the exception of Indonesia's bond issuance which utilized a trust structure, the others are issued under a fiscal agency agreement.[16]

12. The English law bonds recently issued by Hungary contain an engagement clause which allows the bondholders with at least 50 percent of outstanding principal to "appoint any persons as a committee" to represent their interests in the event of a default or acceleration or following any public announcement by the issuer of a restructuring. This clause is consistent with the G-10 recommendations.[17]

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[14]The Polish bond allows each bondholder to accelerate its claim upon a payment default or declaration of moratorium by the sovereign issuer.

[15]See *The Design and Effectiveness of Collective Action Clauses* (SM/02/173, 6/7/02) for a detailed discussion of the design of acceleration and de-acceleration provisions.

[16]Under a fiscal agency structure, individual bondholders have the right to initiate legal proceedings against the debtor following a default for the amount that is due and payable and can keep any recoveries from such proceedings. Under a trust structure, however, the right of individual bondholders to initiate litigation is effectively delegated to the trustee, who is required to act only if, among other things, it is requested to do so by bondholders holding a requisite percentage of outstanding principal. The terms of the trust deed will ensure that the proceeds of any litigation are distributed by the trustee on a pro rata basis among all bondholders. See *Collective Action Clauses—Recent Developments and Issues* (SM/03/125, 03/25/03) for a detailed discussion of the benefits of using a trust structure.

[17]*Republic of Hungary Offering Circular dated January 28, 2004 for €1,000,000,000 4.50 percent; Notes due 2014*. The U.S. dollar denominated bond issued by the U.K. in June 2003 that is governed by English law also included an engagement provision that is consistent with the G-10 recommendations. That provision allows bondholders with at least 66⅔ percent of outstanding principal to appoint any person or persons as a committee or committees to

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C. Aggregation Feature

13. In October 2003, the Board held a seminar that included specialists from the private sector to consider a staff paper on aggregation of creditor claims.[18] During the seminar, it was argued that aggregation can contribute to the resolution of collective action problems and creditors' coordination problems by binding minority creditors across (as opposed to within) issuances. However, it was also noted that there are a number of risks associated with such a mechanism. Aggregation could give rise to inter-creditor equity concerns where, for example, a majority of creditors holding certain claims imposes an agreement on a minority that holds very different claims. An additional risk arises from possible manipulation of the voting process by the sovereign debtor.

14. The inclusion by Uruguay of CACs that provide for a limited form of aggregation in its most recent bonds, and the initiatives by the private sector aimed at designing a legal framework for aggregation in the context of a crisis, were welcomed.[19] Notwithstanding this progress, it was considered premature for the Fund to endorse a particular set of aggregation provisions at that time, since the design of such provisions was still at an early stage and their implementation posed a number of challenges. However, staff will continue to monitor the use and evolution of aggregation provisions and will report to the Board on any significant developments. So far, no other issuers have included aggregation provisions in their sovereign bonds.

D. Encouraging the Use of CACs

15. Staff has continued taking a proactive role in promoting the inclusion of CACs in international sovereign bonds.

- Staff is monitoring and encouraging the use of CACs in sovereign debt instruments, both in the context of the use of Fund resources and of Article IV discussions. In addition, the Legal and International Capital Markets Departments are developing a comprehensive international sovereign bond database.

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represent their interests in any discussions with the issuer or any other creditors in connection with any proposed restructuring and to confer upon such committee or committees any powers or discretions which bondholders could themselves exercise by extraordinary resolution.

[18]*The Restructuring of Sovereign Debt—Assessing the Benefits, Risks and Feasibility of Aggregating Claims* (SM/03/308, 9/4/03).

[19]*Ibid*. See Box 1 for details on the aggregation feature in Uruguay's bond issues. In October 2003, Uruguay issued another bond that included aggregation clauses. This issuance was successfully reopened in March 2004.

- Staff has maintained an active dialogue with private market participants and debt managers from a number of emerging market countries. A recent initiative has been to establish a Forum for Public Debt Managers that provides opportunities for public debt managers to discuss recent market developments and exchange views and experiences, including in the use of CACs.

- In collaboration with the World Bank, staff has amended the 2001 Guidelines for Public Debt Management to include a recommendation on the use of CACs in international sovereign bonds. The amendment was published in December 2003.

16. The G-10 Deputies Group has made significant efforts to promote and monitor developments in the use of CACs, including through discussions in members' meetings and through the creation of a dedicated website. Most recently, it has engaged in a review of the different types of CACs that were adopted in bond issues. This exercise is expected to identify the scope for further engagement with issuers and market participants on possible improvements in the design of CACs, and to lay the ground for future work on the effectiveness of the different types of CACs in achieving an orderly and rapid debt restructuring.

17. At their meeting in September 2003, EU Finance Ministers and Central Bank Governors followed up on their earlier commitment regarding the inclusion of CACs, expressed by the chairman of EU Council of Economic and Finance Ministers in his statement to the IMFC. They endorsed a "common understanding" of the implementation of this EU commitment and published a summary of "core" clauses which member states are expected to use in implementing the EU commitment. These closely follow the proposals by the G-10.

18. Under the leadership of the International Primary Market Association (IPMA), a private sector led group, and in consultation with the six other trade associations that cooperated on the original CAC initiative in late 2002, an effort is currently underway to define a market standard for CACs that reflects current best practice and is mutually acceptable to issuers, their investment banks, and investors.

III. CODE OF CONDUCT

19. In its most recent Communiqué, the IMFC looked forward to efforts to develop a voluntary Code of Conduct (the "Code") by sovereign debtors and private creditors, and encouraged the Fund to contribute to work in this area. A Code could, in principle, facilitate dialogue between creditors and debtors, promote corrective policy action to reduce the frequency and severity of crises, and improve the prospects for an orderly and expeditious resolution of crises. As part of a collaborative approach between debtors and creditors, initial discussions of the benefits of a voluntary Code—led by the Banque de France and the Institute of International Finance (IIF)—took place in an informal working group consisting of selective representatives (including the Fund as an observer) from the official and private

sectors. More recently, the G-7 Finance Ministers welcomed efforts to develop a Code under the aegis of the G-20.

20. Further progress in elaborating a Code of Conduct has been limited, and several challenges remain.[20] However, work in this area is ongoing in both the official and private sectors. The G-20, where proposals for introducing a voluntary Code are a key element of its work focusing on crisis resolution, has held several high-level meetings with representatives of the private sector. The issuers consider that a Code could be useful in clarifying the expected roles of the sovereign debtor and the private sector. They believe that a Code should be voluntary, flexible, mainly focused on crisis resolution, implemented in such a way as not to create uncertainties in the market, and be carefully balanced with respect to sharing the costs of crisis resolution. It is argued that a Code should not be too prescriptive, but should offer a menu of solutions in the form of general guidelines, and while it might incorporate elements dealing with Investor Relations Programs, it should avoid duplicating the Fund's work on crisis prevention. A technical group including Brazil, Korea, and Mexico has been established to work further with private sector representatives to prepare a draft Code for broader consideration. In general, G-20 members believe that there is a basis for finding common ground with the private sector. A relatively narrow agreement might be broadened later.

21. At the same time, the Institute of International Finance (IIF) is continuing its efforts to contribute to a Code, based on key principles predicated on enhanced creditor-debtor cooperation.[21] The draft Principles that are being developed encompass four key pillars—information sharing and transparency, close debtor-creditor dialogue and cooperation, good faith actions during debt restructuring, and fair treatment of all parties. Staff will continue to monitor progress in this area.

IV. Sovereign Debt Litigation by Private Creditors

22. In the context of a seminar, the Board discussed recent developments in sovereign debt litigation and the implications of such litigation for the debt restructuring and debt relief processes. There has been a significant increase in litigation against sovereign debtors over the past several years, although it is too early to assess whether this increase will, in fact, undermine the debt restructuring process. The Fund will continue to closely monitor developments in this important area.

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[20]The previous progress report highlighted several challenges that have emerged in efforts to elaborate a Code. See *Progress Report on Crisis Resolution* (SM/03/31, 8/26/03).

[21]The IIF's views are presented in a recent press release *IIF Calls for Debtor-Creditor Principles for Emerging Markets' Crisis Management and Debt Restructuring*, available on its website: http://www.iif.com/.

V. THE EVIAN APPROACH

23. In an effort to contribute to the orderly resolution of financial crises, the Paris Club agreed in October 2003 on a new, flexible, approach for addressing debt sustainability concerns in non-HIPC countries.[22] This approach focuses on enabling the Paris Club to (i) take into explicit account debt sustainability considerations; (ii) adapt its response to the financial situation of the debtor countries; and (iii) make a contribution to the current efforts to make the resolution of crises more orderly, timely, and predictable. Under the new approach, debt restructuring would be tailored to the financial needs of the country with the goals of ensuring debt sustainability and an exit from future Paris Club reschedulings. The Evian approach would involve an examination of the debtor country's debt sustainability prospects, in coordination with the Fund. Specific attention would be paid to the expected evolution of debt ratios over time, as well as to the debtor country's economic potential.

24. The debt sustainability analysis (DSA) framework of the Fund would be the principal instrument through which the Paris Club would form initial judgments about a country's debt sustainability prospects.[23] For countries which face a liquidity problem but are considered to have sustainable debt, the Paris Club will continue to provide flow relief based on existing terms and tailored to the debtors' needs. Countries with serious debt problems could be provided with a comprehensive debt treatment, including flow treatment, stock reprofiling, or stock reduction, with a view to restoring sustainability. Nevertheless, debt reduction, either through writing down the face value or giving a concessional rescheduling, will continue to be considered only in exceptional cases, and eligibility for a comprehensive debt treatment will be decided on a case-by-case basis.

25. In line with a case-by-case approach, the Paris Club could deliver debt treatment in a number of different ways. In these cases, a debt treatment could be delivered in several phases to maintain a strong link with the debtor country's track record under its Fund-supported programs. For example, the debt treatment could be delivered in a three-stage process:

- In the first stage, whose length could range from one to three years depending on past performance of the debtor country, the debtor would have a Fund arrangement and the Paris Club would only grant a flow rescheduling.

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[22]Additional information on the Evian Approach is available on the Paris Club's website: www.clubdeparis.org/en/index.php.

[23]Recently, staff made a presentation to the Paris Club on the Fund's framework for assessing debt sustainability. This framework is described in *Assessing Sustainability* (SM/02/166, 5/28/02), *Sustainability Assessments—Review of Application and Methodological Refinements* (SM/03/206, 7/1/03), and *Debt-Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications* (SM/04/27, 2/3/04).

- In the second stage, Paris Club creditors could deliver the first phase of an exit treatment at the beginning of the debtor's second Fund arrangement. This exit treatment could take various forms depending on the results of the DSA.

- In the third stage, the Paris Club could complete the exit treatment in a phased manner over the span of the second Fund-supported program, subject to a satisfactory payment record with the Paris Club.

26. To date, experience with the Evian approach has been limited, and there have been no cases where external debt has received a stock treatment in order to restore sustainability.[24] As part of its efforts to improve transparency and information sharing, the Paris Club considers that coordination between official and other creditors, notably private creditors, could be particularly important in some cases where sustainability is in doubt. Early discussions could take place when comparability of treatment is expected to require significant efforts on the part of other creditors, particularly when the share of private external debt is large. Such discussions could provide a forum for creditors to exchange views on the debtors' repayment capacity and the scope of debt reduction.

VI. CONCLUSIONS

27. The increased issuance of international sovereign bonds including CACs under New York law, where they had not been market standard, has been a major development in the latter part of 2003 and early 2004. All of these issues were heavily oversubscribed and showed no evidence of a premium associated with the use of CACs. In line with the recently published revised guidelines on public debt management, staff will continue to encourage the use of CACs, including through various outreach programs. Despite some earlier progress, steps toward further elaborating a Code of Conduct have been limited to date, but work is continuing in the G-20 context. If there were to be an agreed Code, staff would provide the Executive Board with a commentary. As part of its contribution to the orderly resolution of financial crises, the Paris Club has agreed on the Evian Approach, which would involve an examination of debtor countries' debt sustainability prospects in the context of the Fund's debt sustainability analysis. Staff will continue to work on issues that are of general relevance to the orderly resolution of financial crises. In this context, it will continue to closely monitor developments in litigation against sovereign debtors.

[24]The Paris Club has provided one rescheduling under the Evian approach. In this case, Kenya received a flow rescheduling under Houston terms, as its external debt was considered to be sustainable.