*Initiative for Policy Dialogue*

**Sovereign Debt Restructuring Task Force Roundtable Discussion**
**MAY 1ST**
***With the Honourable Paul Martin***

8:00 – 8:15 Continental Breakfast

8:15 – 8:30 **OPENING REMARKS**
**Welcome and goals of meeting**:
Honourable Paul Martin
Minister of Finance, Canada

Joseph Stiglitz

8:30 – 9:15 **A HISTORICAL PERSPECTIVE AND WHERE WE ARE NOW**

**Historical Perspective**
Jeffrey Sachs

**Where we are now: Results from April Ministerial Meeting**
**Current market based proposal(s)**
The Honourable Paul Martin

Questions to be addressed include:
*Are there risks to the sequential approach?*
*How deep is the intention to explore a new Bankruptcy regime?*

9:15 – 10:15 **GOALS OF FRAMEWORK: PRINCIPLES OF BANKRUPTCY REGIME**

The goal of this session is to help define the principles that can be the basis of the rest of the day's discussion. To that end, some of our initial ideas on the subject are listed in more detail below as a starting point for discussion.

Economic policies are directed at creating *efficient* and *fair* outcomes.

**Efficiency goals include:**
*Efficiency ex post, after default:* Resources should be redeployed efficiently.
*Efficiency ex ante, before default:* The awareness of the probability of default can lead to distorted behavior.
*Efficiency in enforcement:* If debtors do not repay, then credit markets will not work. If there are large costs of collection, these act like a "tax".

*Efficiency in risk sharing.* Debt contracts typically do a far worse job in risk sharing than equity contracts. But in the event of bankruptcy, debt contracts can and do help share risk. The design of the bankruptcy provisions affects how well they perform this risk sharing.
*Efficiency in screening and sorting*
*Transactional efficiency:* The costs of resolution are higher than under some bankruptcy codes than under others.

**Contracts vs. legal arrangements:** *Why is there a bankruptcy law for private bankruptcies? Why don't contracts themselves simply specify what will happen in the event of a "breach" of the credit contract Accordingly, why do we need anything other than standard contract law?*

**Creditor vs. debtor friendly rules:** *Some rules are believed to be friendlier to the creditor, others to the debtor. However, more debtor friendly rules would presumably result in higher lending rates. Even so, rules do have different effects on different groups of creditors and debtors. For example, a more debtor friendly regime forces more credit screening; thus, higher risk borrowers may well be excluded from the market.*

**Procedural issues.** *Much of bankruptcy law concerns the procedures by which bankruptcy is resolved.*

10:15 – 10:30 Coffee Break

10:30 – 11:30 **BANKRUPTCY AS VIEWED FROM THE SIDE OF CREDITORS**

**Incentives and how they are affected by alternative bankruptcy regimes**
*Incentives to screen, Incentives to monitor*
*Extent of new lending, Willingness to undertake risky loans*
*Incentives to delay resolution:* Insights from bargaining theory with imperfect information
*Incentives across creditor classes*

**Conflicts between different creditor classes**
*How, and how well, are these conflicts addressed within market-based approach*

**Conflicts within credit classes: costs and benefits of supermajority rules**

**Interaction with other public policy measures**

***Overview: Evaluation of the market based/contractual approach***

11:30 –12:30 **BANKRUPTCY AS VIEWED FROM THE SIDE OF DEBTORS**

**Incentives and how they are affected by alternative bankruptcy regimes**
*Incentives to borrow recklessly, Incentives to undertake risk*
*Incentives to go into default (timing): Strategic non-payment*
*Incentives to delay resolution*
*Creditable commitments and their costs, Signaling*

**Conflicting interests of different types of borrowers**

**Interaction with other public policy measures**

***Overview: Evaluation of the market based/contractual approach***

12:30 – 2:00 WORKING LUNCH
**HOW TO MAKE A CONTRACTUAL REGIME WORK BETTER**
*Can the market work out the best regime itself?; Can market failures be addressed by providing incentives to have "right" contract provisions?; Do incentives (carrots and sticks) give rise to other efficiency/equity problems?*

***Evaluation of Treasury proposals/other proposals to "complete" contracts***

2:00 - 3:00 **HOW TO ORGANIZE A LEGAL FRAMEWORK**

**Issues that need to be addressed:** *Given limitations discussed in earlier sessions*

**Key policy issues:** *Guidelines and Procedures*

**The IMF proposal:** *Does it address key limitations of market based approach?*
*Issues of fairness, transaction costs, implementation*

**A Chapter 9 procedure?**

**Mutual recognition of national laws**
*"Competition for legal structures?"*
*Will countries change their legal systems or be bound by supranational laws?*
*Could this be a meaningful half-way house?*

***Alternatives and their evaluation***

3:00 - 3:30 Coffee Break

3:30 - 4:00 **HOW TO GET FROM HERE TO THERE**

4:00 – 5:00 **CONCLUSIONS; NEXT STEPS FOR A RESEARCH/POLICY AGENDA**

6:00 Cocktails and Dinner