Feride Inan [1]

Macroeconomic Coordination and Financial Stability

The rise to prominence of the G20 and the effective coordination that it achieved in responding to the 2008 financial crisis underline the organization's significant contribution to the global economic recovery – global finance and investment rules and the financial regulatory architecture were significantly strengthened as a result of G20-led initiatives. The G20 also gave impetus to the IMF's robust response to the crisis by increasing its resources and lending capacity in 2009 and 2012. Importantly, many international financial governance institutions, which had been dominated by advanced economies prior to the crisis, became more inclusive in terms membership so as to better reflect the rising significance of emerging economies. [2]

Yet, emerging markets continue to be underrepresented in global governance institutions. In 2015, there was still no resolution on the IMF quota and associated governance reforms to make the Fund more representative. That said, the IMF's quinquennial review of special drawing rights (SDR) this year presents an opportunity to demonstrate the significance of emerging markets. In question has been the internationalization of the Chinese renminbi, which also relates to discussions on the financial liberalization process in China.

At the same time, while the global spillover effects of domestic policy decisions on today's global markets is widely acknowledged, coordination of monetary policies that were occasionally successful during the crisis period quickly waned. The impact of central banks' monetary policies in advanced economies – most notably the Federal Reserve's signal to raise its interest rate – is threatening the economic stability of emerging markets such as Turkey, Brazil, and India.

[1] The author thanks Ussal Sahbaz and Güneş Asik for their contributions.

[2] Membership of the Financial Stability Board (the erstwhile FSF) was expanded to include emerging economies such as China, India, Brazil, and others. The Basel Committee on Banking Supervision expanded its membership from 13 advanced economies to 27 members to include emerging countries. China, India, and South Korea joined the Financial Acton Task Force on Money Laundering.

The efforts toward building effective, forward-looking macroprudential regulation, which will be crucial for identifying systemic risks and responding adequately to prevent or mitigate the next global financial crisis, remain inadequate. One factor pointing to deficiencies within the global governance system is the absence of a global architecture for dealing with sovereign debt crisis – as reflected by a recent US court decision that stopped Argentinean creditors receiving their payments.

Against this backdrop, T20 discussions drew attention to global governance issues, including more-balanced representation of emerging markets in global financial institutions and stronger coordination and cooperation in global finance. T20 provided strategies for effective implementation of international financial regulatory reforms and the strengthening of macroprudential oversight to prevent acute volatility. Lastly, discussions emphasized advancing international financial regulatory reforms to address severe sovereign debt crises.

On balanced representation in governance of international finance, the T20:

- Reiterated the urgency of the need for the US Congress to approve the 2010 IMF quota governance reforms
- Proposed the IMF report on possible “Plan Bs” for its quota and governance reform, including the establishment of permanent bilateral credit lines that would place decision making in the hands of the funding countries
- Supported the inclusion of the Chinese renminbi in the SDR basket while underlining its significance in discussions on the financial liberalization process in China

On strengthening dialogue and coordination between macroeconomic policymakers, the T20:

- Proposed the establishment of formalized, closed-door multilateral policy guidance for G20 policymakers to share their outlook on future domestic interest-rate and exchange-rate policies
- Proposed a neutral assessment unit to provide unbiased analyses of policy outcomes to policymakers
- Emphasized mechanisms to ensure adequate liquidity in the global financial system, including the establishment of permanent dollar-swap arrangements between the US Federal Reserve and emerging economies

Drew attention to enhanced cooperation between regional financial arrangements (RFA) established by emerging markets and the IMF, with an emphasis on building technical capacity of the former. On the completion and efficacy of the financial reform agenda, the T20:

• Emphasized macroprudential regulatory oversight to prevent acute volatility

• Emphasized the need for a comprehensive internationally agreed legal and regulatory framework for resolving distressed systemically important financial institutions (SIFIs) that includes bail-in provisions for private creditors and stakeholders and respects a consistent ranking of creditor priority

• Underlined the need for close and effective cooperation within the recently established crisis management groups of home- and host-country regulators to ensure successful implementation of a resolution regime

On strengthening macroprudential regulatory oversight to prevent acute volatility, the T20 discussions:

• Emphasized the role of big data in identifying system-wide risks in the financial sector

• Proposed research on an analytical framework for identifying the build-up of systemic risks

• Underlined the implementation of reporting standards for systemically important financial institutions to ensure consistency of data

• Emphasized the need for making aggregate, real-time information on evolving risk levels and concentrations in various sectors publicly available so that markets can appropriately price-in broader system-wide risks

• Proposed the design of an International Financial Data Reporting Standard for the coordination and harmonization of data formats and protocols for electronic filing into comprehensive financial data repositories across countries as well as of electronic protocols and draft legal contracts

On sovereign debt restructuring agenda the T20 discussions:

• Emphasized the urgent need for a new global architecture for addressing issues of sovereign debt restructuring

• Underlined the need to implement new standardized terms in sovereign debt contracts issued in G20 jurisdictions

• Drew attention to the need to promote consensus on an interpretation of standardized contracts by national courts

• Emphasized that the entire stock of issued debt is eligible for restructuring

• Underlined the need to prevent speculative practices of sovereign credit default swaps as well as of hedge funds and lobby groups

• Emphasized the need for standardized, systematic, and comprehensive public disclosure standard in sovereign debt

1. Balanced representation

In 2015, there was no resolution on the IMF quota and associated governance reforms to make the fund more representative. These were originally targeted for completion by October 2012 but are still pending implementation because the United States Congress has not ratified all the necessary agreements.

Think20 discussions in 2015 emphasized that quotas should be shifted from advanced economies to dynamic emerging markets and under-represented countries. Some discussants underlined that once the proposed quota reforms are implemented, the challenge may quickly shift towards the distribution of voting power between emerging markets. [3]

POLICY POSITION:

The IMF Executive Board should move to an all-elected Executive Board.

The IMF quotas should be doubled to SDR476.8 billion (the financial resources of the IMF apart from different borrowing arrangements) as part of a quota review.[4]

As the US Cogress fails to enact legislation to implement the IMF reform package, T20 highlighted possible "Plan Bs" for the IMF to move ahead by raising funds from others. For instance, in 2012 IMF managing director Christine Lagarde arranged temporary bilateral credit lines from 38 countries that increased the IMF's capability to finance its lending. [5]

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[3] Marc Uzan, "The Year of International Governance Reform and The Need to Relaunch the Working Group of IFA", Reinventing Bretton Woods Committee, 2015, policy note submitted to the T20 Turkey Kick-off Event.

[4] Ibid.

[5] Fred Bergsten and Edwin M. Truman, "The IMF Should Move Ahead without the United States", *Financial Times*, April 9, 2014, http://www.iie.com/publications/opeds/oped.cfm?ResearchID=2593.

POLICY OPTION:

The G20 could advocate for the IMF to arrange permanent bilateral credit lines from countries, placing decision making in the hands of the funding countries,[6]and ask the IMF to set up a parallel "committee" – without US representation – to advise on and coordinate the network of bilateral arrangements.[7]

While the implementation of IMF reforms to give larger quota shares to emerging economies remains the highest priority, broadening the SDR basket continues to be a permanent reminder of the realities of an evolving international monetary system. The IMF's quinquennial review of the SDR this year presents an opportunity to "facilitate currency diversification in the international monetary system and demonstrate the important role of emerging market economies (EMEs) in the global financial system, thereby helping to strengthen the perception of the IMF's legitimacy". [8] While most T20 participants supported Renminbi internationalization, some drew attention to the need for China to move forward with financial liberalization for the successful internationalization of the currency. [9]

2. Strengthening dialogue and coordination between macroeconomic policymakers

At the 2008 Washington Summit, G20 leaders declared that one of the chief reasons for the crisis had been "inconsistent and insufficiently coordinated macro-economic policies". Accordingly, they declared their commitment to respond to the crisis collectively in order to restore global growth, strengthen the global financial system, and reform international financial institutions, agreeing to follow up on a broader policy response to the crisis "based on closer macroeconomic cooperation, to restore growth, avoid negative spillovers, and support emerging markets and developing countries." [10]

T20 discussions emphasized that coordination of monetary policies that were occasionally successful quickly waned, so creating risks for emerging markets. [11] The G20 policymakers of systemically important central banks should share their outlook on future domestic interest-rate and exchange-rate policies. Coordination is particularly important taking into account the fact that rates were reduced to the zero bound limit by systemically important central banks in developed countries in the post-crisis

[6] Ibid.

[7] Barry Carin and Andrés Rozental, "The G20 and IMF Reform", CIGI, 2014, policy note submitted to the T20 Turkey Kick-off Event.

[8] Domenico Lombardi and Samantha Amand, "Prioritizing International Monetary and Fınancıal Cooperation for the G20 Views from the T20", CIGI Policy brief N°63. 2015.

[9] Discussions at the RDCY-CASS-SIIS-TEPAV International Conference: 2015 G20 Think Tank Summit "Global Governance and Open Economy".

[10] "Declaration of the Summit on Financial Markets and the World Economy", G20, Washington, D.C., 2008, http://www.g20.utoronto.ca/2008/2008declaration1115.html.

[11] Discussions at T20 Turkey workshops in Istanbul, Izmir, and Ankara.

period. [12] [13] One perspective argued that the G20 framework could benefit from a "neutral assessor" to provide unbiased analyses of policy outcomes to policymakers. [14]

Policy Options:

The G20 should establish "formalized, closed-door multilateral policy guidance" that would allow G20 member states affected by monetary policies of other member states to adapt their own policies, thereby reducing the risk of negative spillovers. [15]

The G20 should establish a neutral assessment unit to provide unbiased analyses of policy outcomes to policymakers.[16]

Furthermore, central banking beyond interest rates needs to be explained to stakeholders in a much better way (for instance, the issue of excess capacity in major emerging countries that has been leading to resilient deflation). Central bankers have been trying to develop new tools and instruments beyond short-term interest rates. While there has been more effective monetary policy information-sharing dialogue under the Bank for International Settlements (BIS) and the IMF through regular and irregular meetings, some of which have been held behind closed doors, these unconventional monetary policy

[12] The post-crisis literature – taking into account the fact that rates were reduced to the zero bound limit by systemically important central banks – shows the impact of policy coordination is quantitatively much more significant than earlier models suggested.
See Valentina Bruno and Hyun Song Shin, "Capital Flows and Risk Taking Channel of Monetary Policy", NBER Working Paper, No: 18942, Cambridge, MA, 2013, http://www.nber.org/papers/w18942.pdf; Taylor, J. B., "International Policy Coordination: Past, Present and Future." BIS Working Paper, No. 437, 2013; Jaromir Benes et al, "The Benefits of International Policy Coordination Revisited", IMF Working Paper No. 13/262, 2013, http://www.imf.org/external/pubs/ft/wp/2013/wp13262.pdf.

[13] At the onset of the crisis, major central banks of advanced countries cut interest rates in an almost coordinated fashion. However, as the central banks approached the zero interest rate (ZIR) lower bound, major central banks of advanced economies started to pursue unorthodox policies – including quantitative easing (QE) and large-scale asset purchases (LSAP) – to counteract a financial meltdown. While unconventional monetary policies may have prevented worst-case scenarios during the crisis, these policies have also generated criticism for encouraging long-term risks. The Fed's decision to end quantitative easing led to further vocal criticism, particularly from emerging markets, which complained about the negative spillover effects on exchange rates and international capital flows, threatening domestic macro-economic and financial stability in emerging markets.

[14] Third-party assessor to provide "analyses of alternative strategies and the resulting trade-offs" to domestic policymakers. See Ostry, J. D., and Ghosh, A. R. (2013) "Obstacles to International Policy Coordination, and How to Overcome Them," IMF Staff Discussion Note, December SDN/13/11, 2013, available online https://www.imf.org/external/pubs/ft/sdn/2013/sdn1311.pdf.

[15] Domenico Lombardi and Samantha Amand, 2015.

[16] Based on Ostry, J. D., and Ghosh, A. R.'s idea of a "neutral assessor", 2013 in Feride Inan and Gunes Asık, "The G20 Forum as an Opportunity to Improve Cooperation between Emerging and Advanced Economies", TEPAV Report, December 2014.

tools appear quite complicated to many in the markets. Central bankers need to increase the quality of their individual and group communication skills in order to smooth out excessive volatility arising from uncertainties. Think tanks can help to innovate, design, develop, and operate these new tools that will help ease the burden for central banks in terms of more-efficient communication to explain the future path of monetary policy to the private sector. [17]

Heightened cooperation and coordination on money and capital markets management among central banks increased flexibility on access to lender of last resort facilities by utilizing emergency liquidity provisions, credit lines, and swap agreements. These arrangements, which provided liquidity support during the crisis, were vital to stabilize the global financial system – for instance, in the early stages of the crisis, the US Federal Reserve's establishment of liquidity via swap lines with central banks of major advanced economies, and a few select emerging markets. [18] The Fed eventually decreased the number to just five central banks in advanced economies. [19] Institutionalization of arrangements to ensure adequate liquidity in the global financial system should be supported to prevent destructive market behavior that will lead to long-term welfare losses. [20]

POLICY OPTIONS:

The US Federal Reserve should make permanent dollar-swap arrangements with emerging economies.[21]

The IMF can mediate and back up central bank swap lines.[22]

T20 discussions also drew attention to enhanced cooperation between regional financial arrangements (RFA) currently being established by emerging markets and the IMF. In November 2010, G20 leaders tasked the G20 finance ministers and central bank governors to explore "ways to improve collaboration between RFAs and the IMF across all possible areas" which led to non-binding broad principles for

[17] Feedback provided to this paper by Yuksel Gormez, Central Bank of Turkey.

[18] The Federal Reserve established swap arrangements with the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, the Norges Bank, the Monetary Authority of Singapore, the Sveriges Riksbank, and the Swiss National Bank; see Federal Reserve website http://www.federalreserve.gov/monetarypolicy/bst_swapfaqs.htm.

[19] The Federal Reserve coordinated cuts in the federal funds rate with the lending rates of Bank of Canada, Bank of England, European Central Bank, Federal Reserve, Swedish Riksbank, and Swiss National Bank.

[20] Feedback provided to this paper by Yuksel Gormez, Central Bank of Turkey.

[21] B. Eichengreen, "Does the Federal Reserve Care About the Rest of the World?", *Journal of Economic Perspectives*, 27(4), Fall, pp.87–104, 2013.

[22] Governor of Central Bank of India, Dr Raghuram Rajan's speech at the T20 Consultative Meeting, TEPAV-Gateway House, "Turkey, India and the G20," October 2015, see speech at http://www.gatewayhouse.in/t20-mumbai-keynote-by-dr-raghuram-rajan/.

cooperation under the "G20 Principles for Cooperation between the IMF and Regional Financing Arrangements". [23]

POLICY OPTION:

The IMF should advance its work on "G20 Principles for Cooperation between the IMF and Regional Financing Arrangements" by providing technical assistance for regional financing arrangements, including Chiang Mai Initiative Multilateralization (CMIM) and the BRICS Contingent Reserve Arrangement (CRA)[24].

3. Weaknesses of the financial regulation agenda

In 2015, the Turkish Presidency followed up on commitments to finalize the financial reform agenda, in particular by addressing the too-big-to-fail problem by finalizing the international standard on total loss-absorbing capacity (TLAC) for global systemically important banks (G-SIB). [25] The Basel Committee on Banking Supervision (BCBS) is implementing the "Basel III" reforms to increase bank capital adequacy and liquidity, and internationally active banks are moving to conform to these reinforced measures.

T20 discussions emphasized that despite the G20's successes in establishing global financial regulatory standards, further work remains to be done in implementation and design of policies to achieve global financial stability.

Malcolm Knight (2015) highlights five areas in the financial regulatory reform agenda that need to be strengthened, of which the first two are of critical importance. First is the establishment "of effective, forward-looking macroprudential regulatory oversight". At present, the financial regulation agenda largely focuses on strengthening microprudential regulation and supervising individual institutions;

[23] "G20 Principles for Cooperation between the IMF and Regional Financing Arrangements" as endorsed by G20 Finance Ministers and Central Bank Governors, October 15, 2011.

[24] Barry Carin and Ye Yu, "The G20 and the Future Global Policy Research Agenda", CIGI and SIIS, 2015, policy note submitted to the T20 Turkey Kick-off Event.

[25] On other aspects of the G20 financial reform agenda, the Turkish Presidency focused on addressing the too-big-to-fail problem by implementing the Key Attributes of Effective Resolution Regimes; by extending the systemically important financial institutions (SIFI) Framework; and also by promoting central counterparties' (CCP) resilience, recovery planning, and resolvability. Other areas of financial reform emphasized in the finance ministers' communiqués included securing the safety of OTC derivatives markets and ensuring the oversight and regulation of shadow banking; G20 Finance Ministers and Central Bank Governors Meeting communiqué February 9-10, 2015, Istanbul, https://g20.org/wp-content/uploads/2015/02/Communique-G20-Finance-Ministers-and-Central-Bank-Governors-Istanbul1.pdf, Communiqué. G20 Finance Ministers and Central Bank Governors Meeting 16-17 April 2015, Washington D.C., USA.

there has been less effort toward building effective, forward-looking macroprudential regulation that takes into account vulnerabilities in the financial system as a whole. While the collection of macrofinancial data, the introduction of capital and liquidity requirements for the G-SIB, and the regular implementation of stress tests on the banking sector and of asset quality reviews are important measures, they do not provide oversight of system-wide risks. The scope of policy tools that macroprudential regulators can use is limited in many jurisdictions and legal and political issues often prevent regulators from effectively employing policy tools. [26] (See the next section: *Strengthening macroprudential oversight*).

Second, and critical for financial stability, is for countries to commit to the establishment of an internationally harmonized resolution regime for distressed financial institutions together with legal and regulatory initiatives at the domestic level along with international cooperation to implement it. [27] At the Ottawa meeting, participants highlighted that the FSB's "Key Attributes of Effective Resolution Regimes for Financial Institutions" framework, which is already underway, needs to be made politically feasible and operational. One proposal was to establish a "limited multilateral agreement for a subgroup of G20 countries" with developed financial systems – for example, Canada, the United States and the United Kingdom. The rationale behind this proposal is that an agreement between countries with such systems can set an example for broader adoption of the framework in the future. [28]

However, Knight (2015) underlined that, although the FSB approach needs to be made operational in the short run, it is inadequate. The current FSB approach centers around the identification of Global Systemically Important Banks (G-SIBs) and Global Systemically Important Financial Institutions (G-SIFIs), and finalizing the international standard on the total loss absorbing capacity for G-SIBs, and a global framework to ensure that cross-border counterparties do not pull out their money before others when a systemically important institution fails. [29] In the longer run, the success of an internationally harmonized legal and regulatory regime requires the following two elements:

POLICY OPTION[30]:

The G20 leaders must explicitly agree to implement a comprehensive internationally agreed legal and regulatory framework for resolving distressed SIFIs that includes bail-in provisions for private creditors and stakeholders and respects a consistent ranking of creditor priority.

The G20 must ensure that close and effective cooperation is achieved within the recently established crisis management groups of home- and host-country regulators.

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[26] Malcolm Knight, "Completing the G20's Program to Reform Global Financial Regulation." CIGI Paper No 55, Centre for International Governance Innovation, 2015.
[27] Ibid.
[28] Domenico Lombardi and Samantha Amand, 2015.
[29] Malcolm Knight, 2015.
[30] Ibid.

The other three weaknesses of the global financial regulatory standards are: the complexity of capital and liquidity requirements, and discretionary enforcement actions of both global standard-setting bodies and national regulators when implementing regulatory enhancement measures that may decrease their effectiveness; excessively "homogenous" new regulatory rules across different types of financial market participants, which need to be applied differently to the various market participants based on their individual roles in either amplifying or moderating shocks to the financial system to ensure that the system is stable as a whole and; the urgency of the structural change process in OTC derivatives markets. [31]

4. Strengthening macroprudential oversight

Macroprudential regulatory framework will be crucial for identifying systemic risks and responding adequately to prevent or mitigate the next global financial crisis. T20 discussions underlined the need to better understand how "big data" on the financial system can be combined in an analytical framework for macroprudential regulation.

POLICY OPTIONS[32]:

The G20 could "step up research on an analytical framework for identifying the buildup of systemic risks".

The G20 could "(i)mplement reporting standards for systemically important financial institutions (SIFIs) to ensure the consistency of data".

The G20 could "(m)ake aggregate, realtime information on evolving risk levels and concentrations in various sectors publicly available so that markets can appropriately price-in broader system-wide risks".

Moreover, while individual countries are constructing their financial data repositories" at the country level, and these are critical for an overview of the global financial system, such efforts are carried out in an uncoordinated way. [33]

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[31] See Malcolm Knight, 2015 for further discussion.
[32] Domenico Lombardi and Samantha Amand, 2015.
[33] Rathin Roy, "Trade, Employment and Investment: An integrated G20 agenda", NIPFP, 2015, policy note submitted to the T20 Turkey Kick-off Event.

Policy Options[34]:

The G20 should lead the effort on designing an International Financial Data Reporting Standard for the coordination and harmonization of:

- *Data formats and protocols for electronic filing into comprehensive financial data repositories across countries*
- *Electronic protocols and draft legal contracts that support data exchange between systemic risks regulators across countries*

5. Managing Severe Sovereign Debt Crises [35]

Sovereign debt crises pose critical risks for global financial stability. The US court's recent decision that forced Argentina to default on its sovereign debt demonstrates the shortcomings of the global financial architecture. There was wide consensus in T20 discussions that there is a need for a new global architecture for resolving and restructuring sovereign debt issues. These also pointed to the inadequacy of the private contractual approach exemplified by the fact that no country opted for it. [36]

Yet, there has not been sufficient global policy consensus or coordination regarding the design of global rules and regulations in this area. At the Ottawa meeting, some discussants highlighted that the goal of setting a global framework for sovereign debt crisis remains ambitious due to the presence of large numbers of stakeholders with divergent interests and different views on how to achieve economic efficiency, equity, and justice. Others pointed out that the goal of setting up a global framework for sovereign debt needs urgent attention, pointing to the United Nations General Assembly's recent approval of calls for global basic principles for sovereign debt-restructuring processes. [37]

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[34] Ibid.

[35] Policy recommendations discussed in this section are largely based on the Ottawa meeting report prepared by Domenico Lombardi and Samantha Amand, 2015 and Manuel Montes and Guillermo Wierzba, "Keys For the Adoption of an Effective Regime on Sovereign Debt Restructurings", The South Centre and CEFID-AR, Think20 Turkey Paper, N2015-3, 2015. The latter paper aims to demonstrate that the insertion of new standardized terms in sovereign debt contracts is insufficient to cope with problems; it emphasized the need to move toward an international framework with a set of basic rules that should be applied by all parties and jurisdictions.

[36] Joseph E. Stiglitz, et al, "Frameworks For Sovereign Debt Restructuring", IPD-CIGI-CGEG Policy Brief, November 17, 2014.

[37] According to this view, G20 countries should work to consider practical steps to make possible the setting up of a global multilateral framework according the principles for sovereign debt restructuring defined by the United Nations.

a) Adoption and Implementation of standardized contractual approaches

Drawing attention to G20 communiqués that extended support to standardized contractual approaches,[38] some T20 participants in Ottawa stated that the G20 should seek widespread implementation of new standardized terms in sovereign debt contracts issued in G20 jurisdictions. The latest International Capital Market Association (ICMA) standards for collective action clauses and pari passu provisions are one obvious case, but the G20 could be more ambitious by promoting the adoption of new best-practice standards and formulating a plan to transition outstanding stocks of debt so as to align them with the new standards. [39]

POLICY POSITION:

The G20 should ensure the implementation of new standardized terms in sovereign debt contracts issued in G20 jurisdictions.

Also addressed was the issue of fragmentation arising from divergent interpretation of contracts by national courts. Such fragmentation is further aggravated by the fact that some claims on the sovereign debt are not based on standardized bond contracts and are restructured separately. [40]

POLICY POSITIONS:

The G20 should promote consensus on an interpretation of standardized contracts, encourage liquidity support mechanisms during restructuring, and support statutory mechanisms to shield a restructuring that proceeds in line with consensus norms from free-rider lawsuits.

The G20 should promote that the entire stock of issued debt be eligible for restructuring.[41]

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[38] Efforts to strengthen debt-restructuring processes through contractual obligations were mentioned in the G20 Leaders' Communiqué at the 2014 Brisbane summit, which emphasized efforts to strengthen debt-restructuring processes through contractual obligations; the issue was also considered by G20 finance ministers and central bank governors during their meetings in 2015 (see G20 finance ministers and central bank governors communiques in February, April and September 2015).

[39] Domenico Lombardi and Samantha Amand, 2015.

[40] Ibid.

[41] Manuel Montes and Wierzba, Guillermo, 2015.

b. Preventing Speculative Practices and Strengthening Public Disclosure

T20 discussions underlined the need for supervision to prevent speculative practices that impede clear, effective, and sustainable sovereign debt-restructuring processes. At the Ottawa meeting, discussions underlined the need to regulate sovereign credit default swaps (SCDSs). These create divergent interests amongst creditors, thus complicating restructuring negotiations. Traditional investors use SCDCs to hedge against the risk of default or restructuring while some debt holders use SCDCs to speculate to profit from default. Hence, SCDSs create incentives for those speculators who want to force default, to block restructuring processes. [42] These swaps are over-the-counter transactions and therefore are not monitored by regulators.

POLICY POSITION:

The G20 should work towards banning speculative positions (like in the eurozone) or "at least improve transparency by requiring SCDS holders to disclose their positions."

One perspective emphasized that strong supervision and firm measures must be introduced to impede speculative practices by hedge ("vulture") funds as well as professional litigators that lobby in their interest.

Equally important is the public disclosure of the outcomes and processes of sovereign debt restructuring. Discussion advocated that all stakeholders have full access to disclosures that are comprehensible, also given that there are not mandatory disclosure requirements in all countries where restructuring takes place.

POLICY OPTION:

The G20 should work toward a standardized, systematic, and comprehensive public disclosure standard in sovereign debt.[43]

[42] Skylar Brooks, Martin Guzman, Domenico Lombardi, and Joseph E. Stiglitz. "Identifying and Resolving Intercreditor and Debtor-creditor Equity Issues in Sovereign Debt Restructuring", CIGI Policy Brief No. 53, January,2015.
https://www0.gsb.columbia.edu/faculty/jstiglitz/download/papers/2015%20Identifying%20and%20Resolving%20Intercreditor%20and%20Debtorcreditor.pdf

[43] Domenico Lombardi and Samantha Amand, 2015.

c. Authority to set up "the restructuring mechanism"

Several arguments have been brought up on who should set up "the restructuring mechanism". The G20 can act to facilitate the establishment of a global sovereign debt restructuring mechanism that can settle individual cases. [44] Krueger (2002) proposed that the IMF serve as the institutional venue to determine the debt sustainability status of each country. [45] There have been several criticisms of this approach. Among them, Montes and Wierzba (2015) argued in their T20 Turkey note that the Fund's credit policies "aimed at dealing with situations of balance of payments problem, have proven ineffective". [46] Debt repayment becomes unfeasible when financing is accompanied by austerity goals and "rescues create a 'moral hazard' that encourages reckless financing". [47] However, the authors argue that historically "strategic" default by sovereign states caused less damage than "too little and too late" debt restructurings, concluding that the restructuring mechanism should be set up at the request of sovereign states.

[44] Feride Inan and Güneş Aşık, 2015.
[45] Anne Krueger, "A New Approach to Sovereign Debt Restructuring", IMF, 2002; in Montes and Wierzba, 2015.
[46] Manuel Montes and Guillermo Wierzba, 2015.
[47] Ibid.