

UN urged to swoop on vulture funds

By Katie Allen

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The Latin American country slipped into default in July after losing a long legal battle with hedge funds that bought its debt at rock-bottom prices during Argentina's financial crisis and then rejected the terms of debt restructurings in 2005 and 2010, pursuing the country through the courts to get full repayment.

Argentina's second default in 13 years prompted renewed calls for an international legal framework to smooth the process of restructuring debts and to protect crisis-stricken sovereign creditors.

Debt campaigners welcomed the proposal, which is likely to be voted on at the UN general assembly next week. They said if successful it could solve the gridlock over Argentina's debt.

In the longer term, the submission aims to find more efficient ways of dealing with debt crises and reduce the likelihood of them happening in the first place. But there are concerns the UK government will vote against the latest proposal, which has been put to the UN by a group of developing countries known as the G77 plus China. The coalition includes Argentina, which put the debt restructuring initiative to the other states.

Sarah-Jayne Clifton, director of Jubilee Debt Campaign, highlighted previous resistance from developed countries against moves to introduce sovereign debt rules. "This is a welcome move that developing countries are collectively calling for fairer ways of dealing with international debts. Countries across the world would benefit from the existence of a fair, independent and transparent way to arbitrate on debts when governments cannot afford to pay," she said.

"The danger is that rich countries such as the UK will seek to block, delay or undermine this proposal on behalf of financial sector lobbyists."

The hedge funds battling to get repayment on Argentinian bonds have been branded vulture funds by the country's government and anti-poverty campaigners after buying the country's debt during the crisis of 2001-2.

Most of the country's bondholders agreed to take a big reduction in the value of their original investment – known as a haircut – but the hedge funds have insisted on full repayment. A US judge backed the funds, known as holdouts, and has ordered that talks to hammer out a settlement must continue.

There have been concerns among developing nations and campaigners that a victory for the vulture funds will encourage creditors that have been forced to take a haircut to sue, and will make future debt restructurings more difficult to organise.

But support for new rules has been picking up, and last week a group representing banks and investors agreed to change the way they deal with defaulting government debt, removing the right of veto from holdouts.

The International Capital Market Association's revised debt framework is designed to bind all bond-holders to any debt restructuring agreement.

Eric LeCompte, executive director of the religious anti-poverty group, Jubilee USA said that the new framework was a promising sign. "The ICMA shows there is a global consensus against predatory funds and holdouts. It's an important step, but we need actual laws in the United States and across Europe to end the behaviour," he said.