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IDENTIFYING AND RESOLVING INTER-CREDITOR AND DEBTOR-CREDITOR EQUITY ISSUES IN SOVEREIGN DEBT RESTRUCTURING

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KEY POINTS

- Different types of creditors have different political and financial claims and thus different — at times, divergent or conflictive — interests. This means that the burden-sharing exercise of sovereign debt restructuring is played out not just between debtors and creditors, but also between different types of creditors.
- The private sector approach centred on collective action clauses (CACs) is not sufficient to solve the myriad problems, including those of inter-creditor and debtor-creditor equity, associated with sovereign debt restructuring.
- In response to the deficiencies of the current approach, several policy measures to enhance the equity and efficiency of sovereign debt restructuring procedures should be considered. These include: tighter regulation of sovereign credit default swap (SCDS) contracts; the provision of a greater role for debt reprofiling and bondholder aggregation; the development of common rules and norms for valuing public and private concessions in sovereign debt restructurings; and the establishment of greater creditor rights for implicit creditors.

INTRODUCTION

Much analysis of sovereign debt restructuring focuses on distributional conflict between sovereign debtors and their creditors. There is also an analytical tendency to see creditors as a relatively homogenous group with like interests. In reality, however, there is considerable diversity among creditors. Different *types* of creditors have different political and financial claims and thus different — at times, divergent or conflictive — interests. This means that the burden-

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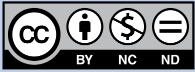

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sharing exercise of sovereign debt restructuring is played out not just between debtors and creditors, but also, importantly, between different types of creditors.

We should emphasize that the private sector approach centred on CACs — even the newer, stronger CACs recently adopted by Kazakhstan and Mexico — is not sufficient to solve the myriad problems associated with sovereign debt restructuring. Among other things, CACs do not guarantee the enforcement of priority agreements, address debtor-in-possession financing, or even eliminate the problem of "holdout" creditors (Bolton 2003; Buchheit et al. 2013). Nor do they address *ex ante* concerns, such as the tendency to delay necessary debt restructurings (Gitlin and House 2014; International Monetary Fund [IMF] 2013b), or ensure that the debtor is not still left with an unsustainable debt burden after restructuring. This brief will elaborate on several of these issues below.

The purpose, here, is not to analyze the strengths and weaknesses of various approaches or endorse one over another, but rather to focus on a few of the *effects* of incomplete contracts and the absence of a more comprehensive sovereign bankruptcy regime in terms of inter-creditor and debtor-creditor equity and the related issues of efficiency in sovereign debt restructuring.

Most discussions of inter-creditor issues vis-à-vis sovereign debt restructuring focus on the collective action problems that lead to individually and collectively suboptimal outcomes. From a game-theoretic perspective, several studies show the positive-sum logic of inter-creditor and debtor-creditor coordination in preventing and resolving sovereign debt crises (for an overview, see Rogoff and Zettlemeyer 2002; Pitchford

and Wright 2010).[1] Some studies also highlight, or at least imply, that creditor interests are often relatively aligned with debtor interests, insofar as both groups want to avoid crises and, when they occur, resolve them with minimal disruption, even if that means the "early and rapid restructuring of unsustainable sovereign debt" (Krueger 2012, 199; IMF 2014b). This, of course, is not always the case, in particular when creditor groups are non-homogenous. In many cases, significant conflicts of interest exist and can undermine inter-creditor, as well as debtor-creditor, equity and cooperation during debt restructurings.

This policy brief draws on a joint workshop with Columbia University on Frameworks for Sovereign Debt Restructuring, held in New York on November 17, 2014. It does not address anything close to the full range of issues discussed there. Instead, it narrows in on a specific set of salient issues that affect debt restructuring processes and outcomes: those related to inter-creditor and creditor-debtor equity. It also offers a few policy considerations for beginning to resolve these issues in ways that contribute to fairer and more effective debt restructurings.

THE ROLE OF SCDSs

Since 2008, there has been rapid growth in the use of SCDSs, especially in advanced economies where new concerns about debt sustainability have been raised (IMF 2013a). Many investors use SCDSs to hedge against the risk of sovereign default and protect their assets in the event of a debt restructuring. But SCDSs are also used to speculate on the likelihood of default — an activity that some fear could have "destabilizing effects on the financial system" (ibid). In October 2011, to mitigate this risk, the European Union (EU) banned the purchase of credit default swap contracts on sovereign bonds that the buyer does not hold — i.e., when she or he is not hedging (Ruffoni 2014). Since then, SCDS trading in the European Union has declined markedly. The data suggest, however, that much of this speculative activity has simply shifted into emerging market debt (ibid.).

The widespread use of SCDSs contradicts the notion that creditors necessarily want to avoid sovereign defaults and, when they occur, seek to reach prompt and fair restructuring agreements. As international law firm Allen & Overy (2011, 17) observes, "buyers of protection will generally want a credit event to happen." When such an event triggers or necessitates debt restructuring, not all creditors will necessarily share the same incentive to reach a timely and fair debt workout. Some creditors (with small or non-existent SCDS positions) will have a strong incentive to reach agreement, while others (with large SCDS positions) will have a far weaker incentive (Guzman and Stiglitz 2014). The disjuncture between different creditors' incentive structures is made worse by the fact that bondholders involved in a restructuring are not obliged to disclose their SCDS positions.

These conflicts of interest threaten to exacerbate the problem of holdout creditors by further incentivizing non-cooperation in debt restructuring negotiations. This is especially worrying in the wake of the recent Argentina-related litigation, which, by giving holdouts a new strategy to pursue full repayment and block the repayment of those who agreed to a restructuring, threatens to increase the incentive to hold out from future restructuring deals. Imagine: in the event of a debt restructuring, holdouts with large SCDS positions could sue for repayment and, if successful, cash in twice.

1 From these perspectives, the problem is that even when cooperation is "Pareto superior," it may not be achieved due to informational asymmetries and other constraints on collective action.

In addition to holdout creditors, it has long been recognized that distressed debtors tend to postpone the restructuring process and, when it can be delayed no longer, seek insufficient debt relief from their creditors. The 2012 Greek restructuring is widely cited as an exemplar of this "too little, too late" problem (IMF 2013b; Gitlin and House 2014). The policy fix would be to have debtors and their creditors come together at an early stage (when debt servicing difficulties first become apparent) and seek to restore debt sustainability. Early restructuring could help stave off default and a deeper restructuring in the future, thus providing benefits to both debtors and creditors. But creditors that hold SCDSs will have little reason to cooperate with other creditors and with debtors to avert future crises. The logic of a voluntary "upfront" restructuring only makes sense if creditors fear they will incur larger losses in the event of a future crisis. The purchase of SCDSs dampens such fear and, with it, the incentive to seek early resolution of sovereign debt difficulties, which is already very difficult to achieve. The use of SCDSs could thus further sever the link between inter-creditor and debtor-creditor interests in sovereign debt restructuring.

SHORT-TERM VERSUS LONG-TERM CREDITORS

Balancing the interests of short-term and long-term holders of sovereign debt also raises issues of inter-creditor equity. Restructurings tend to affect only holders of some bond issuances or series, rather than all bondholders.

A key distinction exists between creditors whose claims will reach maturity during a debt crisis or IMF program (short-term claims) and those with longer-term claims that will not mature for several years. The distribution of losses between these two generic types of creditor depends on the way in which a debt crisis is resolved.

Traditional debt crises begin with a bailout. In bailouts, short-term creditors escape relatively unscathed. The IMF comes to fill the spot left by the creditors it bailed out. Since the IMF is de facto a senior creditor and, as such, is almost always paid back on time and in full, the longer-term creditors who "stayed in" (who typically had no choice but to stay in) are pushed further down on the creditor food chain (which determines who gets paid, on what terms and when).

By contrast, in more recent crises when there has been a "bail-in," it is typically the shorter-term claimants who bear the brunt of the restructuring, as it is their claims that are coming due at the same time the sovereign is experiencing difficulty servicing its debt. They must therefore reschedule and/or accept a face-value loss on their claim.

Clearly, then, the method of treatment determines which creditors win and lose — relatively speaking — during a sovereign debt crisis.

FOREIGN VERSUS DOMESTIC CREDITORS

The nationality of bondholders — in particular, whether they are foreigners or domestic residents — can also be an important determinant in the differential treatment of creditors. For example, domestic and foreign creditors were treated differently in the most recent restructurings of Argentina, Jamaica, Dominica, Russia and Uruguay, to name but a few cases. There are a number of reasons why sovereigns might want to discriminate for or against domestic or foreign creditors in their debt restructuring strategies (Erce 2013).

First, residents are subject to the domestic legal and regulatory system, making them easier to persuade or coerce into participating in a debt exchange. Second, a sovereign may choose to honour its external debt obligations while restructuring its domestic ones in order to retain access to international capital markets — a particularly attractive strategy for states with underdeveloped domestic financial markets. Third, a sovereign may choose to restructure its external debt obligations while remaining current on its domestic ones in order to mitigate the domestic financial fallout that could result from defaulting on and/or restructuring claims held by local banks and businesses. Finally, domestic residents may have more influence than foreigners over their governments' decision making and, thus, a greater ability to shape outcomes that favour domestic creditors (ibid.).[2]

As these examples show, inequity between foreign and domestic creditors can be a contentious aspect of sovereign debt restructuring, with a direct impact on the perceived fairness and efficacy of various crisis resolution strategies. *Pari passu* clauses were designed to impede such discrimination, but as evinced by the recent Argentina litigation, these clauses can be interpreted and applied in ways that deviate from their original intent (Burn 2014; Gilsinan 2014).

2 There are two further complications. First, if, on average, the debt contracts with foreigners and domestic creditors differ, any discussion of how to treat different classes of creditors becomes, de facto, a discussion of how to treat foreigners versus domestic creditors. For instance, if domestic creditors lend in domestic currency and foreigners in dollars, then a decision about exchange rates is de facto a discussion about treatment of foreign versus domestic creditors. Second, domestic borrowers inevitably are subject to the country's own tax and expenditure programs, which may make up, for instance, for some of the losses that might occur in a debt restructuring. Foreign creditors may be partially compensated by their governments through the tax system as well.

PRIVATE VERSUS PUBLIC CREDITORS

Private and public — or commercial and official — creditors also often receive differential treatment in sovereign debt restructurings (Mandeng 2004). There is no clear logic as to which group (public or private creditors) will generally receive more favourable treatment. Official bilateral, multilateral and private sector treatments will be briefly compared.

The Paris Club of official bilateral creditors grants debt relief on the "comparability of treatment" principle, meaning that any debtor who receives treatment from the Paris Club must also seek comparable debt relief from its other bilateral official and private creditors.[3] The problem, however, is that securing comparable concessions from commercial creditors (who had no input in the Paris Club deal) can be difficult. Obtaining comparable treatment is further complicated by the fact that official and private creditors "do not share common rules to value concessions in debt restructuring" (ibid., 18).

In a more specific example, private creditors have not shared equally in the burden of the substantial debt relief offered by the IMF, World Bank and Paris Club under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). In fact, many private creditors whose claims were repudiated or restructured during these initiatives have successfully sued (or threatened to sue) for full repayment.[4] According to the Paris Club, such litigation

3 See www.clubdeparis.org/sections/composition/principes/comparabilite-traitement.

4 At the end of 2007, total claims from litigating creditors were worth US$1.5 billion, US$1.2 billion of which had already been awarded by the courts (see www.clubdeparis.org/sections/themes-strategiques/2009-8217-action-du-club/8217-action-du-club/switchLanguage/en).

has "significant negative consequences for targeted debtor countries," and "the failure of commercial creditors to commit to participation in the HIPC Initiative might also jeopardise the provision of debt relief under the HIPC and MDRI initiatives."[5]

On the other hand, private creditors complain that official lenders often receive more favourable restructuring terms. The Emerging Markets Traders Association, for example, argued that "inequity in the treatment of private and official bilateral claims allows bilateral creditors to continue to operate in a system that at times afforded them more favorable terms" (quoted in Mandeng 2004, 15). There is no question that the IMF and the Multilateral Development Banks receive preferential treatment because of their "preferred creditor status" (PCS). The IMF's PCS is widely seen as compensation for the fact that it lends to risky, crisis-ridden countries at low interest rates in order to provide the global public good of financial stability in times of crises, when no one else is willing to lend.

Still, the PCS has remained controversial. Its legal standing appears to be uncertain, and has been called into question (Raffer 2005). As noted earlier, giving PCS to the IMF may result in creditors who thought they were senior (and whose debt contracts may have said that) being moved down the priority chain, and receiving more substantial haircuts than they otherwise would have received.[6]

Private and public creditors do sometimes receive differential treatment during sovereign debt restructurings. The key questions are why and to what effect? In some cases, differential treatment may be justified if it contributes to the debtor's economic recovery or global financial stability more broadly. In other cases, differential treatment complicates inter-creditor bargaining and leads to inefficient and unfair outcomes.

EXPLICIT VERSUS IMPLICIT CREDITORS

Even in private debt restructurings, the list of claimants on a firm in bankruptcy includes not only its formal creditors (the holders of its long-term and short-term bonds and banks that have lent it money), but also both current workers, who are owed wages, and past workers, if the firm has promised them pensions. Domestic bankruptcy laws recognize these claimants and, in many cases, even give them priority.

In the case of sovereign debt restructurings, there can be a much longer list of "implicit" claimants, including, for instance, those who have made social security contributions in anticipation of retirement benefits. This leads to a fundamental question: who counts as a creditor? Standard practice suggests that sovereigns have three broad types of creditor: commercial, official

5 See www.clubdeparis.org/sections/themes-strategiques/2009-8217-action-du-club/8217-action-du-club/switchLanguage/en.

6 To the extent that this has long been recognized as part of the international regime, there is no real change in property rights. On the other hand, a switch in regimes, for example from a bailout regime to a bail-in regime, can be thought of as a change in property rights. Even leaving aside inter-creditor distributional issues, the continued value of the PCS has been called into question, as the IMF's decision to amend its "exceptional access" lending framework to deal with the Greek crisis could undermine the ability of the IMF to catalyze private lending and hence to resolve debt crises timely (Schadler 2014).

bilateral and official multilateral. But sovereigns are a very unique type of debtor, and we need to think more deeply about who funds them. Sovereign debtors are governments; as such, they have obligations not only to their explicit creditors (bondholders and foreign official lenders), but also to their implicit creditors (pensioners and taxpayers more generally). The social contract is every bit as important as the formal creditor contracts.

Pensioners and taxpayers are creditors of the government whose claims are typically affected by the terms of a sovereign debt restructuring; yet, they have no seat at the negotiating table and thus no say over those terms.

How much representation should be given to these creditors in debt renegotiations? What is the best way of giving them representation? Just as there are different groups of explicit creditors, there are also different groups of pensioners — such as different age groups — whose interests can sometimes conflict. Creating fair representation within and across pensioner groups would thus have to be a cornerstone of any scheme to include them in debt negotiations.[7]

If these implicit creditors were explicitly recognized and treated as full-fledged creditors, how would this change debt restructuring negotiations?

For one thing, it could make them more representative of the sovereign's creditor base and thus, arguably, fairer and more equitable. Moreover, it could shift the relative balance of creditors in favour of those with a genuine stake in the sovereign's full and speedy recovery.

7 It should also be noted that it is easy to convert implicit creditors into formal creditors. Until now there has been little incentive to do so (and some disadvantages of doing so); however, the rules of aggregation may encourage countries to do so.

In general, including these implicit creditors could prove beneficial by providing something of a counterweight to the creditors who do not necessarily have as strong an interest in the debtor's well-being, such as those with large SCDS positions.

CACs

This brief has noted several inter-creditor problems that arise in debt renegotiations. It is important to note another: since sovereign bonds are typically restructured on a series-by-series basis, only a portion of a sovereign's creditors are involved in any given restructuring. This implies a possible degree of inequity between different bondholders. A particularly egregious example has been exposed by the Argentine restructuring (although similar problems have occurred elsewhere in milder forms): the possibility of holdouts and vulture funds attempting to get for themselves better terms than others, under the threat of otherwise blocking the restructuring.

Recent US court decisions and changes in other provisions (the elimination of the champerty defence and in the span of sovereign immunity) have increased the difficulties of sovereign debt restructurings, as has the greater diversity of claimants over the past third of a century.

At one point, some experts and policy makers were hopeful that CACs would resolve these problems, but more than a decade ago, this view was strongly questioned (for example, at the Initiative for Policy Dialogue Conference on Debt Restructuring at Columbia University in May 2002). The concerns of these critics have been borne out.

For instance, if the CACs applied to each bond issue separability, it is relatively easy for specialized holdout

creditors to buy a "blocking position" within a single bond series and thwart an otherwise widely accepted restructuring agreement.

Partly in response to earlier failures, the International Capital Markets Association (ICMA), the IMF and a few sovereign debtors have been promoting a new version of CACs with a stronger "aggregation" feature. As a recent IMF staff report (2014a, 1) states, "Broad support has emerged for CACs to include a 'single limb' voting procedure that will enable bonds to be restructured on the basis of a single vote across all affected instruments, subject to safeguards designed to ensure inter-creditor equity and minimize the risk of sovereign manipulation."

These revamped clauses, adopted by Kazakhstan and Mexico, are intended to deal with this issue by aggregating and binding all bondholders to a single restructuring process.

However, as noted in the policy discussion below, there are many questions about how to go about aggregation — questions first raised more than a decade ago. How does one value bonds issued in different denominations? With different maturities? With different seniorities? How expansive is the list of creditors? Several key inter-creditor issues — such as voting rights across different classes of creditors, or the potential for a majority to deprive minority creditors of their rights — are left unaddressed.

They also fail to address *ex ante* issues or the "too little, too late" problem. In many quarters, there is concern over whether these issues can be solved in a way that is fair and equitable and that will lead to efficient restructuring — and in a way that can be easily and adequately incorporated into the debt contract itself.

Even if these new CACs are widely adopted, and even if they did provide an adequate resolution to the problems that have been identified *going forward,* it will take them at least a decade to work their way into the existing debt stock.

POLICY CONSIDERATIONS

All advanced economies have bankruptcy laws. Preserving inter-creditor equity in the restructuring or liquidation of a company is one of the main objectives of such laws. At the international level, however, the lack of a sovereign bankruptcy framework "complicates an orderly debt restructuring process between different and contractually unrelated creditor groups" (Mandeng 2004, 10; see also Stiglitz 2002; Stiglitz et al. 2009). The absence of a strong bankruptcy framework also leads to costly delays in sovereign debt restructuring.

In 2001, then IMF Deputy Managing Director Anne Krueger proposed the creation of a "sovereign debt restructuring mechanism" (SDRM), which would function as a bankruptcy procedure for sovereigns. After two years of lively discussion and debate, the SDRM was abandoned, partly because of opposition by the United States, which argued CACs were an efficient and sufficient alternative — although they were an alternative that no advanced country had chosen for resolving domestic restructurings, which are typically less complicated. CACs were also seen as a more politically feasible alternative. Recent events have shown, however, that the market-based approach does not go far enough and that a more comprehensive solution is still necessary and desirable (Stiglitz et al. 2009). Testifying to the continued and widespread support for an SDRM-like arrangement, the UN General Assembly recently passed a resolution calling for the creation of a multilateral legal framework for sovereign

debt restructuring. However, despite these positive developments, many of the world's most powerful countries — in particular those with advanced financial markets — still argue that tinkering with the market-based approach, for example, by improving CACs and by introducing more explicit language concerning *pari passu* will do the trick. They continue to oppose more comprehensive reforms, meaning that the struggle for a more robust framework for sovereign debt restructuring will be tough and protracted. In the meantime, there are a number of sensible policy measures that can begin to address some of the key issues outlined in this brief. Four policy considerations are advanced:

- **Tighter regulation of SCDS contracts.** Rules prohibiting the speculative use of SCDS contracts should be considered beyond the European Union. Some experts raise legitimate concerns that an EU-style ban could itself cause instability by impairing the liquidity of the market. Still, the concerns raised in this brief suggest that policy makers should not ignore the potential for SCDSs to disrupt sovereign debt markets and complicate sovereign debt restructurings. The speculative use of these instruments should be closely monitored and evaluated.

  At the very least, bondholders should also be required to disclose their SCDS positions. This would reduce information asymmetries and help bring about a more transparent environment for inter-creditor and creditor-debtor bargaining. By revealing any conflicts of interest, disclosure policies could contribute to more effective negotiation strategies among those with common goals and pave the way for stronger rules to neutralize "spoilers." Providers of sovereign default insurance could also be given a seat at the negotiating table to counterbalance the weight of SCDS holders and help facilitate a positive resolution. Although perhaps difficult to operationalize, SCDS contracts could also be designed to include provisions that exclude from coverage any bondholder whose actions played a "pivotal role" in triggering default. SCDS regulations could thus be introduced through legislation or contractual innovation.[8]

- **A greater role for debt reprofiling and bondholder aggregation.** A recent IMF staff report (IMF 2014b) examines the benefits of using debt reprofiling — rather than bailouts or outright debt reductions — in cases where there is genuine uncertainty regarding the sustainability of a country's public debt in the medium term. Reprofiling has several merits, one of which is the more equitable treatment of short-term and long-term creditors. Under a reprofiling, short-term claims will face greater disruption than longer-term claims, but the distributional implications will be less stark than in the cases of outright bailouts or deep debt restructurings. Moreover, the aggregation clauses contained in the new model of CACs could be a strong mechanism for promoting inter-creditor equity in future debt restructurings, although it should be acknowledged that these clauses could also create new inter-creditor problems if they were used by the majority to deprive creditors of their rights. Still, this is perhaps a lesser evil to the opposite scenario, whereby a minority hijacks and derails good faith negotiations to the detriment of majority creditors, the debtor and global financial stability.[9]

8 The provisions of this paragraph need to apply broadly, for example, to affiliates of those with a seat at the bargaining table.

9 We recall, however, the problems noted earlier in formulating an equitable aggregation clause.

- **The development of common rules and norms for valuing public and private concessions in sovereign debt restructurings.** Developing a set of rules and norms to assess public-private creditor equity could contribute to more cooperative *ex ante* and *ex post* debt management strategies between commercial and official creditors. Such rules should focus on the key issue of what interest rate to use when valuing different concessions.[10] Agreed-upon rules could be established as soft law within an international organization or as a set of principles within a broadly accepted code of conduct. As part of this rethinking, there should once again be a reconsideration of the desirability of bailouts and the IMF's de facto PCS.

- **The establishment of greater creditor rights for implicit creditors.** Sovereign debtors could consider establishing special roles and rights for their implicit creditors in a way that allows the latter to *directly* represent their interests in debt restructuring negotiations. Doing so could strengthen inter-creditor equity and give greater voice to creditors who have a strong interest in the debtor's economic well-being.

10 The choice of interest rate affects not only equity among creditors, but also equity between the borrower and creditors. Lenders to risky sovereigns receive high interest rates to compensate them for the risk of default. The new bonds issued in a good restructuring, which has substantially lowered the default rate, should accordingly carry with them a much lower interest rate.

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From "Taoguang Tanghui" to "Yousuo Zuowei": China's Engagement in Financial Minilateralism

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Hongying Wang

Through minilateral efforts, the Chinese government seeks to use financial minilateralism to stimulate reform of global financial institutions, provide financial public goods for its regional neighbours and fellow developing countries, as well as directly promote China's economic and political interests. This paper examines China's minilateral diplomacy in the financial area and explores possible international reaction to China's new activism and the domestic political dynamics in China.

China in the G20 Summitry: Review and Decision-making Process

CIGI Papers No. 46
Alex He

As the largest emerging economy, China believes that the Group of Twenty (G20), instead of the Group of Eight (G8), is the ideal platform for its participation in global governance. This paper examines the reasons why China joined the G20 rather than the G8, and then focuses on a detailed review of China's participation in G20 summits since the enhanced forum began in 2008.

The State-owned Enterprises Issue in China's Prospective Trade Negotiations

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Hejing Chen and John Whalley

Chinese state-owned enterprises (SOEs) are likely to be key elements in China's trade negotiations over the next few years. This paper examines some key sub-issues regarding SOEs for these trade discussions and proposes strategies to focus debate and outline possible approaches to accommodation, rather than definitively resolve the issues.

China and Sovereign Debt Restructuring

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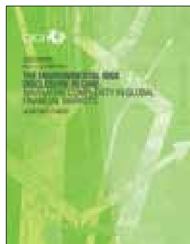
Hongying Wang

This paper contends that from China's point of view, the most important question in debt management is how to prevent excessive borrowing and lending and reduce the likelihood of unsustainable debt. It sees discussions about the mechanisms of sovereign debt restructuring as having little effect on this question. It offers a context for understanding China's policy position, if and when it becomes official, by reviewing Chinese reactions to the last round of debate about sovereign debt restructuring in the early 2000s, and by examining recent Chinese discourse and initiatives regarding sovereign debt management.



The Environmental Risk Disclosure Regime: Navigating Complexity in Global Financial Markets

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Jason Thistlethwaite

In recent years, a plurality of different governance initiatives has emerged that have the potential to reduce environmental risk within the financial sector by incentivizing investments in sustainable economic activity capable of long-term value creation. Unfortunately, environmental risk disclosure has yet to be assessed as a field of governance activity. This paper addresses this gap by describing environmental risk disclosure as a "regime complex" that is defined by a field of fragmented but related governance initiatives that lacks an overarching hierarchy.

Reforming the Global Architecture of Financial Regulation: The G20, the IMF and the FSB

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Malcolm D. Knight

The global financial crisis that began in 2007 and deepened in 2008 exposed major weaknesses in financial and macroeconomic policy coordination, and profound flaws in financial risk management and regulation in a number of advanced countries. This paper undertakes an analysis of how cooperation takes place among three actors — the G20, the IMF and the FSB — to implement the fundamental reforms needed to ensure that the global financial system is better able to withstand shocks than it was in 2007-2008.

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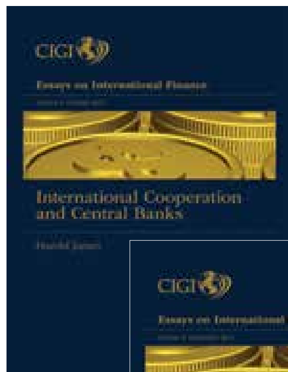

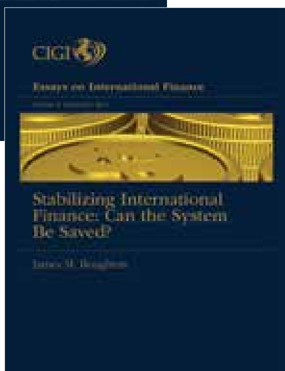

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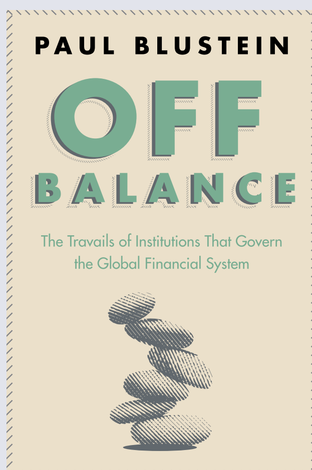

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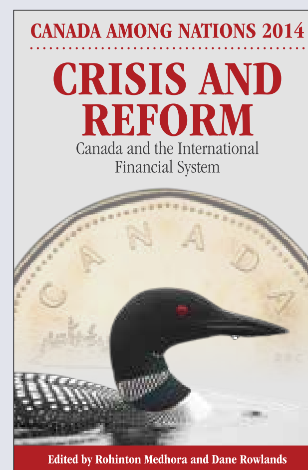

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