Risk management optimization for sovereign debt restructuring: why and how

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ABSTRACT

On May 2013, the International Monetary Fund issued a public notice that its Executive Board had discussed developments in sovereign debt restructuring and the implications for the Fund's legal and policy framework. In September 2014 the U.N. General Assembly adopted a resolution to ``negotiate and adopt a multilateral legal framework for sovereign debt restructuring''. The renewed interest was prompted by the realization by the IMF, in the aftermath of the Greek crisis, that ``debt restructurings have often been too little and too late thus failing to re-establish debt sustainability and market access in a durable way''. The litigation against Argentina in New York courts by holdouts is having significant ramifications for future sovereign debt restructurings.

In this talk we do three things: (1) Argue that debt restructuring should take a risk management perspective, and introduce the risk measures of *Debt-at-Risk* (DEaR) and *Conditional-Debt-at-Risk* (CDEaR) based on measures commonly used by financial institutions and their regulators, (2) Develop a model for optimally re-profiling a debt structure, and (3) Discuss the design of sovereign contingent convertible debt (COCOs) in optimal debt restructuring and the associate pricing models. The Greek sovereign debt is used as a case study.

A working paper is available for download below:

https://www.researchgate.net/profile/Stavros_Zenios/publications
Or
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2478380

Stavros Zenios is Professor of Finance and Management Science at University of Cyprus, and Senior Fellow at The Wharton School, USA. He served as vice-chairman of the Cyprus Council of Economic Advisors and the Board of the Central Bank of Cyprus. He published more than 130 articles in leading international journals in risk management, optimization, operations research and management science. He authored two books and edited several more. His work was translated in Chinese.