

Media Release

*The first*

# Broken Trust Award



goes to

**The Government of  
the Republic of Argentina**

## Media Release

Prize for “insensitive” dealings with bondholders

### The government of Argentina receives the “*Broken Trust Award*”

*Winterthur (Switzerland), 17 December 2003.* Visual Finance has awarded the Argentine government what is called the “*Broken Trust Award*” in connection with the country's debt restructuring. The prize is awarded to bond debtors attracting attention by their negative behavior in the capital market. Argentina is currently the largest “restructuring case”. The “*Broken Trust Award*” has been granted for the first time today.

On 22 September 2003, Argentina's Minister of Economy and Production, Robert Lavagna, and the Secretary of Finance, Guillermo Nielsen, officially and for the first time presented their guidelines for debt restructuring in Dubai at the annual meeting of the Bretton Woods Institutions, IMF and World Bank). Since the end of 2001, Argentina has defaulted on payments to various creditor groups. In the course of the meeting, bondholders were shown a matrix consisting of three basic variants with additional options. The present value of the offer is only about 10% of the original face value of Argentine bonds. Bondholders scrutinizing the the debt restructuring plan are likely to find fault with several elements of the procedure and the plan.

For satisfactory debt restructuring, both the debtor's behavior during the restructuring process (I) and the amount offered (II) play an important part.

- (I) It has taken almost two years for a debt restructuring proposal to be put to the bondholders. This is an extraordinarily long time. Yet even now the bondholders do not know whether the money coming from the bond issues went into the projects (tangible or intangible assets) set out for them in the issue prospectus. Furthermore, the government has failed to define what lessons it has learned from the default and how risk management is to be improved. Such a statement

would be essential to overcome the crisis as well as for future fund-raising in the capital markets. The audience waited in vain for an apology addressed to the creditors, although the Dubai presentation of the debt restructuring plan would have offered an ideal platform. The government certainly missed a great opportunity!

The low esteem in which the bondholders are held is also reflected by the way that the government keeps on pointing out that creditors should have been aware of a deteriorating solvency since 1995. However, the downtrend did not prevent the government from issuing bonds worth billions of dollars in the following years.

Restructuring came too late – and the Argentine population was one of the victims of that delay.

Summary (I): Unsatisfactory Debtor Behavior and Creditor Relations

The lack of moral awareness is also reflected by the offer's monetary structure.

- (II) With its restructuring offer - which corresponds to a discounted value (current value) of about 10% of the original face value of Argentine bonds - the Argentine government has undershot already low expectations. A loss of about 90% would send strong negative signals to the capital market. The government offers no material security but relies solely on forecasts. It appears that in the eyes of the government representatives, the value of the outstanding Argentine bonds is only a function of Argentina's future economic growth. The amount of more than USD 80 billion (principal value of the bonds earmarked for “restructuring”) that was pumped into the country through bond issues appears to be a kind of lubricant “used up and written off” in economic development.

Summary (II): Unsatisfactory financial offer

Visual Finance hopes that no investment banks were involved in determining the amount offered. Their participation would cast a poor light on the integrity of the financial sector and raise new questions of conflicts of interest.

#### Conclusion

- Visual Finance is of the opinion that the government of Argentina has been too little concerned with the bondholders, does not understand their concerns well enough and has so far made insufficient efforts to find a satisfactory solution. This view is firmed up as various interest groups have been formed. They fear information asymmetry and expect certain behavioral risks (e.g. unequal treatment of creditors). Creditors will incur additional costs in this way because of increased expenditure on monitoring (agency cost).
- From our point of view, the debt restructuring plan has sent negative signals to the capital market. In the last two decades, securitization has led to a certain “atomization” concerning the size of individual investments of capital providers. However, risk diversification across many parties (investors) is acceptable to the individual investor only if he can assume that his weaker position – determined by the smaller size of his investment – will under no circumstance be exploited by the debtor.
- The **“Broken Trust Award”** should spur the government to make the necessary efforts to improve the relationship with its creditors.
- **Further deterioration in recovery rates after bond defaults must be brought to a halt urgently! No government should allow itself to set a bad example.**

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## Information on Visual Finance and Bondholder Value®

Visual Finance specializes in the valuation and evaluation of the credit risks of listed companies. It also strives to improve the protection of bondholders. Visual Finance has developed what is known as the Bondholder Value® Concept for this purpose. Bond debtors create Bondholder Value® by a) taking the necessary precautions to guard against default, thereby protecting bondholders and other stakeholders from a default situation, b) taking measures in time so that recovery rates in the case of a threatening default do not deteriorate unilaterally to the disadvantage of bondholders, and c) creating transparency allowing investors to assess a debtor's creditworthiness.

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