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UN Approves New Legal Framework for Debt Restructuring

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The United Nations voted in favour of a new legal framework that will serve as a guide for countries restructuring their debts, as is the case with Argentina and the vulture funds.

124 countries voted in favour of the proposal, with just 11 voting against, and 41 abstentions.

Among those nations who voted against the proposal were the United States, the United Kingdom, Israel, Germany, Czech Republic, Australia, Japan and Finland.

The debate was led by the Argentine Foreign Minister Hector Timerman and will end with a vote on the new resolution.

The G-77 group voted at the end of August unanimously to debate the issue at the United Nations and to create new rules to regulate international debt restructurings. ?

A part of the U.N. resolution states that, "Recognizing the need to create a legal framework that facilitates the orderly restructuring of sovereign debts, allows the re-establishment of viability and growth without creating incentives that inadvertently increase the risk of non-compliance and acts as a deterrent to disruptive litigation that creditors could engage in during negotiations to restructure sovereign debts."

The debate at the U.N. is a result of the worldwide alarm at the Argentine case, and the fear that the ruling by the U.S. Supreme Court in favor of the vulture funds could have a negative impact on other countries.

The new reform could empower poor countries against predatory funds and limit future defaults.

Even large institutions like the International Monetary Fund and World Bank have expressed concerns that the victory for the predatory hold out funds would make debt restructuring more difficult.

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