10/16/14 REUTERS LEGAL 18:06:56

REUTERS LEGAL

October 16, 201420141014101430

Restructuring pros envision global process for sovereign workouts

Nick Brown

(Reuters) - Imagine a global authority, akin to the World Bank, overseeing an internationally recognized restructuring process for sovereign debtors that looks to reproduce the experience of Detroit and avoid the pain suffered by Argentina.

That's the vision of the Global Restructuring Organization (GRO), a European restructuring industry group that aims to start a global conversation about how to deal with sovereign debt, according to Bankruptcy Judge Cecelia Morris, one of the group's founders.

Morris, the chief judge of the U.S. Bankruptcy Court for the Southern District of New York, said in an interview with Reuters that recent developments in Argentina show the challenges of overhauling sovereign debt without a formal system.

"When a sovereign is in stress, the options are to do nothing and see how it plays out, which sounds horrible, or do what Argentina did, to try to restructure with no judicial umbrella," said Morris, whose court handles many of the most complex U.S. bankruptcy cases.

Morris is speaking at GRO's annual conference in Modena, Italy, later this month. It's the second time the group has held the conference, which its organizers hope will become the "Davos of restructuring," Morris said.

The organization was founded by its current president, Antonio Tullio, a restructuring expert and professor at the University of Modena, Italy. Tullio could not be immediately reached on Monday.

Among Morris' fellow speakers will be Kevyn Orr, the former Jones Day partner and emergency manager tapped to lead Detroit through its massive Chapter 9 bankruptcy.

While Detroit is not a sovereign, its largely consensual reorganization stands as evidence that politically charged government workouts can be achieved if procedures exist to foster a negotiation, Morris said.

"You at least have to have a structure where everyone has the opportunity to be heard," she said.

In Puerto Rico, lawmakers and lawyers this year passed a law modeled after U.S.-style bankruptcy that would allow the territory's public agencies to restructure their debt, though it is being challenged by creditors as unconstitutional.

"Since we have the reality of Argentina, Puerto Rico is wisely trying to find a way to have a structure," the judge said.

Argentina, without the benefit of a restructuring mechanism, tried to cut its debt by offering haircuts in 2005 and 2010 to holders of $82 billion in defaulted bonds. Most creditors accepted the offer, but holdouts led by Elliott Management successfully petitioned a New York court to rule that they have a right to full payment.

That ruling complicated Argentina's situation by essentially allowing the holdouts to recover in full while others settled for discounts. Because preferential treatment is barred under the bond agreement, Argentina is now also blocked from repaying bondholders who settled, triggering a default earlier this year and worsening its economic problems.

---- Index References ----

News Subject: (Funding Instruments (1FU41); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Financially Distressed Companies (1FI85); Corporate Restructuring (1RE42); Debt Restructuring (1RE45); Business Management (1BU42); Bankruptcies (1BA08); Corporate Financial Data (1XO59); Emerging Market Countries (1EM65))

Industry: (Financial Services (1FI37))

Region: (Latin America (1LA15); U.S. Midwest Region (1MI19); Americas (1AM92); Michigan (1MI45); North America (1NO39); USA (1US73); New York (1NE72); South America (1SO03); U.S. Mid-Atlantic Region (1MI18); Argentina (1AR53))

Language: EN

Other Indexing: (Cecelia Morris; Antonio Tullio)

Keywords: bankruptcy (MCC:f); (N2:US); (N2:AMERS); (N2:USA)

Word Count: 517

End of Document