‘Comparable Treatment’ for Private Creditors

A New York bill would neutralize objections that China raises to delay and avoid participation in sovereign-debt restructuring.

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Regarding your editorial “New York’s Boost for Chinese Creditors” (June 1): Under the proposed legislation, private-creditor recovery can’t be limited unless all public creditors, including China, take losses to the same extent. Moreover, the bill weakens China’s position in restructurings. The certainty that private creditors will receive “comparable treatment” neutralizes objections that China raises to delay and avoid participation in sovereign-debt restructuring.

The bill aims to prevent some creditors from free-riding on others or forcing on the debtor a better deal than what other creditors get. This is what comparable treatment, a rule long accepted by the U.S. and all partners, means, so it isn’t a change to the rules of the game, except for those who profit primarily from violating them.

Collective-action clauses (CACs) haven’t been a panacea in sovereign-debt restructuring. The average time it takes a country to go from a debt crisis to a
lasting restructuring is 10 years. When restructuring occurs, private creditors typically get 20% better treatment than public lenders get. While CACs can mitigate some holdout creditor issues, the complexity of debt structures and the diverse interests of stakeholders limit their effectiveness.

By preventing taxpayer bailouts of private creditors, the bill prevents the erosion of support for needed international coordination on sovereign-debt restructuring required to resolve market-destabilizing crises.

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