PROPOSAL FOR A REGULATION ADDRESSING SPECULATION IN SOVEREIGN DEBT

JUSTIN VANDERSCHUREN, PH.D*

Abstract

Over the past few years, several countries have undertaken to regulate the speculation in sovereign debt pursued by so-called "vulture funds." The various realizations and attempts present a series of loopholes that make a new way of addressing speculation advisable. A proposal for a regulation, legally justified and precisely framed, is all the more desirable given that some legislators, particularly from the New York State Legislature, have recently taken up the issue.

Debt sustainability is the only realistic regulation benchmark. It is inconceivable to ban debt purchases on the secondary market as this would significantly impact the liquidity of sovereign debt and the cost of the borrowed money. Nevertheless, sovereign debt speculation is unacceptable if it undermines the human rights of the populations of the debtor countries.

Every endeavor undertaken by a creditor to get paid should be endorsed by a court informed about the terms of the debt. Moreover, some limitations to the claims of speculative funds should be set. They should be capped at the amount paid to acquire the debt instruments. Besides this amount, creditors should be able to obtain interest on their investments. This interest offsets the risk that creditors may not recoup the money.

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* Postdoctoral Researcher (F.R.S.-FNRS, Belgium) and Visiting Assistant Professor (University of Louvain, Belgium); formerly Research Scholar (University of Michigan, United States). The Review of Banking and Financial Law members are commended for their editorial work.