Sovereign Debt Management Forum 2014

Summary Note for Breakout Session 2

Transparency and Stakeholder Relations Management (TSRM)

I. Summary of session

Heike Reichelt[1] opened the session by highlighting the importance for government debt management offices (DMOs) of ensuring an adequate transparency of their operations as well as managing the relations with their main stakeholders. These include various government levels, the legislature and auditors, investors, multi- and bilaterals, rating agencies, the media and the general public, all of which have information needs. Although addressing these needs can be expensive and time consuming for DMOs, it may result even more costly not to do so –as seen in more expensive debt, weaker ratings, or misunderstandings with the Minister of Finance, Congress or the auditors, among others. However, there is no single model for this function applicable to all countries.

The presentations from senior DMO officials of Uruguay and Hungary illustrated the institutional arrangements, policies, and mechanisms that can be developed in a relatively short time for ensuring the required DeM transparency, as well as a dynamic dialogue with key stakeholders, in particular market participants. Standard & Poor's representative discussed the need for DMOs to provide easy access to information, a dependable and continuous dialogue and responsiveness to its requests, while also pointing out debt-relevant variables of S&P's rating methodology.

Concluding the presentations, Elizabeth Currie[2] summarized the manner in which a number of countries are carrying out this vital function, with reference to literature on this topic and preliminary research findings for a forthcoming paper[3]. Officials from Brazil and Turkey briefly summarized their countries' experience. In a final question and answer session participating debt managers followed up on specific aspects of the communications function, as well as on Standard & Poor's use of information.

[1] Head of Investor Relations & New Product Development of the World Bank Treasury.
[2] Lead Financial Officer of the World Bank Treasury.
[3] The other authors are Rodrigo Cabral of the WB Treasury, and Otavio de Madeiros, Undersecretary of Planning and Fiscal Statistics of the Brazilian Treasury.

II. Key insights from presentations and discussion

Antonio Juambeltz presented the Uruguayan experience, where in a few years a DMO with a total of 6 staff[4] successfully strengthened the transparency and stakeholder relations management (TSRM) function, achieving a high score from the International Institute of Finance (IIF)[5]. The high debt levels and dependence on international markets of early 2000s led to the design and implementation of a comprehensive investor communications strategy based on transparency, predictability, availability and equal treatment. The strategy is currently implemented by the front and middle office staff through a variety of instruments, including comprehensive reporting and new website design, based on IIF guidelines on data transparency and IR practice. Regular one-on-one, group and virtual meetings with domestic and international market stakeholders, as well as market surveys, promote a continuous dialogue and mutual feedback, which is important for the design of their funding strategy. The DMO organizes the rating agencies' annual visits, maintains regular contact and informs them on the rationale for new transactions before or immediately after implementation. Two key elements of the program's success have been the DMO's staff retention policy, allowing strong personal relationships to be built with key stakeholders, and policymaker participation and support.

András Réz presented the case of Hungary, which in addition to high debt levels, had the additional complexity of a recent centrally-planned economy. The Debt Management Agency (ÁKK) helped create the domestic market and its investor base, while attracting international investors, thus requiring a strong TSRM function. ÁKK started by publishing information for investors through the website and specialized electronic media. Different ÁKK units/staff addressed specific information needs: i) CEO and Deputy CEOs (communications strategy and press relations); ii) front office (direct contact with investors, primary dealers[6] and rating agencies); iii) middle office (data dissemination, and attending the Ministry, auditors and taxpayers), and iv) a marketing unit (retail investors), thus demonstrating successful alternatives to a specialized communications unit. The main communication channels for wholesale investors include the website, with carefully designed flexibility to incorporate innovations; various publications with different periodicity and material; deal and non-deal roadshows, as well as reverse roadshows involving investors that travel though Europe; and articles for financial magazines. ÁKK coordinates with various government units to receive and publish macroeconomic data, and to provide input for the budget and financial accounts, and is responsive to requests from the state audit office. The role of the supporting IT systems is fundamental. In sum, a separate DeM agency was also able to build up an excellent TSRM function in a relatively short time, which was given a high score by the IIF.

Brazil's main points were: i) the IR unit is located in the DMO's middle office, where 5 out of a total of 25 staffers are directly involved in these functions; ii) it is important to first inform the rating agencies of potential problems before the press reports on them, so as to reduce misunderstandings, and in general

[4] The DMO only has front and middle offices, as the back office is carried out by the central bank of Uruguay. The DMO was created in 2006 in the Treasury, before was in the central bank.

[5] The IIF created a methodology for annually evaluating emerging markets' management of investor relations and data transparency practices.

[6] The Primary Dealers program was created in 2006.

maintain a continuous contact with the agencies; iii) it is useful for the DMO to provide DeM courses every semester to the journalists who cover the activities of the Ministry of Finance.

Turkey's main points were: i) the DMO has a dedicated IR unit ; and ii) the need to proactively explain the rationale behind DeM policies in a dynamic dialogue, as merely ensuring DeM transparency is insufficient for many stakeholders.

Some of the key insights of **Lisa Schineller**[7] of Standard & Poor's were: i) DMOs not only need a good website/information dissemination, but also a fluid, ongoing dialogue with the rating agencies so the latter can obtain updated information as well as an understanding of policymakers' rationale for DeM policy and strategy; ii) the debt structure (e.g. tenors, currency composition) and corresponding risks are key inputs for the fiscal score, in addition to the debt level; iii) agencies must discuss with senior officials the issue of contingent liabilities, e.g. policy regarding SOEs; iv) specific DeM variables can weaken the scoring if: more than 40% of debt is denominated in foreign currency or the debt's average maturity is typically less than three years; non-residents hold more than 60% of central government commercial debt; the amortization profile has variations of more than 5% of GDP from one year to the next, or is exposed to possible acceleration from puts or rating triggers; and/or more than 20% of the resident banking sector balance sheet is exposed to the government.

Elizabeth Currie's main points on sound practice identified among OECD and emerging market countries led to the conclusion on the need for DMOs to: i) have in place an active TSRM, particularly in difficult times, when stakeholders need even more disclosure; ii) implement this function either by creating a specialized unit or by dividing the functions among their existing staff; iii) systematically identify the information needs of the DeM stakeholders, then proactively use a wide range of available instruments for addressing them; iv) ensure transparency as a minimum, both for governance and the markets, but additionally maintain an active, continuous, trust-building dialogue with stakeholders to promote two-way feedback, especially for the design of the funding program. DMOs should address the difficulties in evaluating the function's impact, and in convincing policy-makers of the function's importance.

III. Conclusion and issues for further discussion

The discussion among the DMO representatives and S&P illustrated the importance of having a DeM TSRM strategy and for it to be proactively implemented, taking into account not only investors but also a number of additional stakeholders. Even small DMOs have successfully developed this function in a relatively short time and without a specialized unit, achieving a high level of transparency and dynamic stakeholder relations which provide both parties with essential feedback. The discussion with a major rating agency illustrated the type of continuous dialogue that is highly desirable.

Public debt management has improved all in many countries during the past two decades. As the transparency and stakeholder relationship management is a vital dimension, no doubt it will continue to gradually improve as more DMOs become aware of its importance and of ways of further developing it.

[7] Managing Director, Standard & Poor's.