

# STATE OF NEW YORK

5542--A

2023-2024 Regular Sessions

## IN SENATE

March 8, 2023

Introduced by Sens. RIVERA, BRISPORT, CLEARE, COMRIE, GIANARIS, HOYLMAN-SIGAL, KRUEGER, MYRIE, RAMOS, SALAZAR, SANDERS -- read twice and ordered printed, and when printed to be committed to the Committee on Banks -- recommitted to the Committee on Banks in accordance with Senate Rule 6, sec. 8 -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the debtor and creditor law, in relation to restructuring unsustainable sovereign and subnational debt

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Short title. This act shall be known and may be cited as  
2 the "sovereign debt stability act".

3 § 2. The debtor and creditor law is amended by adding a new article 8  
4 to read as follows:

### ARTICLE 8

#### SOVEREIGN AND SUBNATIONAL DEBT

5  
6  
7 Section 220. Legislative intent.

8 221. Definitions.

9 222. Election to be covered by the provisions of this article.

10 223. Petition for relief; recognition.

11 224. Notification of creditors.

12 225. Debt reconciliation.

13 226. Submission, contents and voting on plan.

14 227. Financing the restructuring.

15 228. Priority of repayment.

16 229. Adjudication of disputes.

17 230. Recoverability of section 230 claims.

18 231. Application; opt in.

19 232. Severability.

20 § 220. Legislative intent. The legislature finds that it is a long-  
21 standing policy of the United States and the state of New York, as the

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

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1 world's leading financial center, to support orderly, collaborative and  
2 effective international sovereign debt relief for countries with unsus-  
3 tainable levels of debt. Debt distress, debt crises, and disorderly  
4 default are associated with unacceptable human suffering, economic  
5 decline, and financial market and payment systems disruption. Moreover,  
6 debt restructuring is ineffective and does not lead to sustainable  
7 outcomes when it is not perceived as equitable or legitimate by stake-  
8 holders in borrowing and lending countries. Additionally, public credi-  
9 tors are unlikely to participate in debt restructuring initiatives  
10 unless there is fair burden sharing among all public and private credi-  
11 tors, which is essential to the legitimacy and effectiveness of debt  
12 relief initiatives. Therefore, the legislature finds and declares that  
13 it shall be the policy of New York state to support international debt  
14 relief initiatives for countries to ensure that the cost of such debt  
15 relief is allocated in a fair and equitable manner, and that such costs  
16 do not fall disproportionately on the residents and taxpayers of New  
17 York state, and for other purposes. The purpose of this article is to  
18 provide effective mechanisms for restructuring sovereign and subnational  
19 debt so as to:

- 20 1. reduce the social costs of sovereign and subnational debt crises to  
21 residents of New York state;
- 22 2. reduce systemic risk to the financial system, a system that is  
23 concentrated in New York state;
- 24 3. reduce creditor uncertainty, including to the numerous holders of  
25 sovereign debt that are residents in New York state;
- 26 4. strengthen the role of New York state as a primary location for the  
27 issuing and trading of sovereign debt;
- 28 5. reduce the need for sovereign and subnational debt bailouts, which  
29 create moral hazard and are costly to residents of New York state;
- 30 6. otherwise protect economic activity within New York state's  
31 borders, by reducing the likelihood of a sovereign debt default which  
32 could adversely impact New York state's economy;
- 33 7. reduce, out of universal human rights and humanitarian imperatives,  
34 the social cost of unresolved sovereign debt crises imposed on the  
35 people of nations with unsustainable debt, especially the poorest among  
36 them, taking due account of creditor rights; and
- 37 8. enable debtor states to choose a debt restructuring option that  
38 appropriately suits its circumstances and needs.

39 § 221. Definitions. For purposes of this article:

- 40 1. "creditor" means a person or entity that has a claim against a  
41 debtor state;
- 42 2. "claim" means a payment claim against a debtor state for monies  
43 borrowed or for the debtor state's guarantee of, or other contingent  
44 obligation on, monies borrowed; the term "monies borrowed" shall include  
45 the following, whether or not it represents the borrowing of money:  
46 monies owing under bonds; debentures; notes, or similar instruments of  
47 original maturity of at least one year; monies owing for the deferred  
48 purchase price of property or services, other than trade accounts paya-  
49 ble arising in the ordinary course of government operations; monies  
50 owing on capitalized lease obligations; monies owing on or with respect  
51 to letters of credit, bankers' acceptances, or other extensions of cred-  
52 it of original maturity of at least one year;
- 53 3. "plan" means a debt restructuring plan pursuant to section two  
54 hundred twenty-six of this article;

1 4. "debtor state" means a sovereign nation; or unincorporated territory;  
2 or any subnational unit thereof, excluding any municipality whose  
3 adjustment or debts is governed by 11 U.S.C. 9;

4 5. "independent monitor" means an individual appointed by the governor,  
5 in consultation with the United States department of the treasury,  
6 acceptable to the sovereign debtor and to the holders, or their agents,  
7 of a majority of the obligations issued under New York law. The inde-  
8 pendent monitor is meant to facilitate and encourage an effective,  
9 prompt and fair agreement by the parties, as intended by this article.  
10 The debtor state shall pay the independent monitor's reasonable costs  
11 and expenses;

12 6. "international initiative" means any mechanism, framework or initi-  
13 ative in which the United States government and other sovereign states  
14 have engaged with international financial institutions and official and  
15 commercial creditors to advance the implementation and improvement of  
16 prompt and effective debt relief among eligible states, including but  
17 not limited to the Heavily Indebted Poor Countries Initiative of the  
18 International Monetary Fund and the World Bank, the Debt Service Suspen-  
19 sion Initiative of the Group of 20, the Common Framework for Debt Treat-  
20 ments beyond the DSSI, also known as the "Common Framework", the Paris  
21 Club, and any successor or similar international mechanism, framework or  
22 initiatives;

23 7. "eligible claim" shall mean a claim as defined in subdivision two  
24 of this section and any judicial or other official domestic or foreign  
25 judgment with respect to such a claim against an eligible state partic-  
26 ipating in one or more of the international initiatives;

27 8. "eligible state" shall mean a sovereign state eligible to partic-  
28 ipate in one or more of the international initiatives;

29 9. "burden-sharing standards" shall mean standards set by the relevant  
30 international initiative or international initiatives for equitable  
31 burden-sharing among all creditors with material claims on each partic-  
32 ipating debtor without regard for their official, private, or hybrid  
33 status;

34 10. "section 223 claim" shall mean, as applicable, a claim with  
35 respect to which the debtor state has elected for its claims to be  
36 covered by section two hundred twenty-three through section two hundred  
37 twenty-nine of this article; and

38 11. "section 230 claim" shall mean an eligible claim with respect to  
39 which the debtor state issuing such claim has elected to be covered by  
40 section two hundred thirty of this article, and not to be covered by  
41 section two hundred twenty-three through section two hundred twenty-nine  
42 of this article inclusive.

43 § 222. Election to be covered by the provisions of this article. 1.  
44 Any debtor state against which there are one or more claims governed by  
45 or enforced under New York law shall have the option to apply the  
46 provisions of this article to such claims by filing a notice thereof  
47 with the state of New York. In such notice, the debtor state shall  
48 choose whether those claims shall, to the extent governed by New York  
49 law, be covered as section 223 claims or, to the extent enforced under  
50 New York law, as section 230 claims. Within thirty days after giving  
51 such notice, the debtor state shall notify the holders of such claims  
52 and the state of New York of its choice. In the case of a choice to have  
53 those claims be covered as a section 223 claim, the debtor state shall  
54 also make the certifications specified in subdivision two of section two  
55 hundred twenty-three of this article. Any waiver of the provisions of  
56 this subdivision shall be ineffective.

1 2. A debtor state that makes a choice under subdivision one of this  
2 section shall have the right to change that choice once, at any time  
3 prior to a plan becoming effective and binding on the debtor state and  
4 its creditors, by notifying the state of New York and the holders of all  
5 claims affected by that choice.

6 § 223. Petition for relief; recognition. 1. The notification under  
7 section two hundred twenty-two of this article that claims against a  
8 debtor state shall be covered as a section 223 claim shall constitute a  
9 voluntary petition for relief with the state of New York.

10 2. Such notice shall certify that the debtor state:

11 (a) seeks relief as a section 223 claim under this article, and has  
12 not previously sought relief under this article, or under any other law  
13 that is substantially in the form of this article, during the past five  
14 years;

15 (b) needs relief as a section 223 claim under this article to restruc-  
16 ture claims that, absent such relief, would constitute unsustainable  
17 debt of the debtor state;

18 (c) agrees to restructure those claims in accordance with this section  
19 through section two hundred twenty-nine of this article;

20 (d) agrees to all other terms, conditions and provisions of this  
21 section through section two hundred twenty-nine of this article;

22 (e) has duly enacted any national or subnational law needed to effec-  
23 tuate these agreements. If requested by the independent monitor, such  
24 petition shall also attach documents and legal opinions evidencing  
25 compliance with this subdivision; and

26 (f) is cooperating with the International Monetary Fund to devise an  
27 effective, efficient, timely and fair path back to sustainability.

28 3. Immediately after such a petition for relief has been filed, and so  
29 long as such filing has not been dismissed by the independent monitor  
30 for lack of good faith or the debtor state has not changed its choice  
31 under subdivision two of section two hundred twenty-two of this article  
32 to have its claims covered by section two hundred thirty of this arti-  
33 cle, the terms, conditions, and provisions of this article shall:

34 (a) apply to the debtor-creditor relationship between the debtor state  
35 and its creditors to the extent such relationship is governed by the law  
36 of this jurisdiction;

37 (b) apply to the debtor-creditor relationship between the debtor state  
38 and its creditors to the extent such relationship is governed by the law  
39 of another jurisdiction that has enacted law substantially in the form  
40 of this article; and

41 (c) be recognized in, and by, all other jurisdictions that have  
42 enacted law substantially in the form of this article.

43 § 224. Notification of creditors. 1. Within thirty days after filing  
44 its petition for relief, the debtor state shall notify all of its known  
45 creditors of its intention to negotiate a plan under section two hundred  
46 twenty-three through section two hundred twenty-nine of this article.

47 2. The independent monitor shall prepare and maintain a current list  
48 of creditors of the debtor state and verify claims for the purposes of  
49 supervising voting under section two hundred twenty-three through  
50 section two hundred twenty-nine of this article.

51 § 225. Debt reconciliation. The creditor claims shall be reconciled  
52 against debtor records and any discrepancies shall be addressed between  
53 the parties.

54 § 226. Submission, contents and voting on plan. 1. The debtor state  
55 may submit a plan to its creditors at any time, and may submit alterna-  
56 tive plans from time to time.

1 2. No other person or entity may submit a plan on behalf of the debtor  
2 state.

3 3. A plan shall:

4 (a) designate classes of claims in accordance with subdivision six of  
5 this section;

6 (b) specify the proposed treatment of each class of claims;

7 (c) provide the same treatment for each claim of a particular class,  
8 unless the holder of a claim agrees to a less favorable treatment;

9 (d) disclose any claims not included in the plan's classes of claims;

10 (e) provide adequate means for the plan's implementation including,  
11 with respect to any claims, curing or waiving any defaults or changing  
12 the maturity dates, principal amount, interest rate, or other terms or  
13 canceling or modifying any liens or encumbrances; and

14 (f) certify that, if the plan becomes effective and binding on the  
15 debtor state and its creditors under subdivision four of this section,  
16 the debtor state's debt will become sustainable.

17 4. A plan shall become effective and binding on the debtor state and  
18 its creditors when it has been submitted by the debtor state and agreed  
19 to by each class of such creditors' claims designated in the plan under  
20 subdivision three of this section. Thereupon, the debtor state shall be  
21 discharged from all claims included in those classes of claims, except  
22 as provided in the plan.

23 5. A class of claims has agreed to a plan if creditors holding at  
24 least two-thirds in amount and more than one-half in number of the  
25 claims of such class voting on such plan agree to the plan, without  
26 counting claims owned by the debtor state or entities it controls.

27 6. Each class of claims shall consist of claims against the debtor  
28 state that are equal in priority, provided that:

29 (a) equal priority claims need not all be included in the same class;

30 (b) claims of governmental or multi-governmental entities holding  
31 claims each shall be classed separately;

32 (c) claims that are governed by this article or the law of another  
33 jurisdiction that is substantially in the form of this article shall not  
34 be classed with other claims; and

35 (d) the fact that a claim arises under, or is supported or evidenced  
36 by, a judicial or other official domestic or foreign judgment shall not  
37 in and of itself mean that such claim is not equal in priority to other  
38 claims.

39 § 227. Financing the restructuring. 1. Subject to subdivision three of  
40 this section the debtor state shall have the right to borrow money on  
41 such terms and conditions as it deems appropriate.

42 2. The debtor state shall notify all of its known creditors of its  
43 intention to borrow under subdivision one of this section, the terms and  
44 conditions of the borrowing, and the proposed use of the loan proceeds.  
45 Such notice shall also direct those creditors to respond to the inde-  
46 pendent monitor within thirty days as to whether they approve or disap-  
47 prove of such loan.

48 3. Any such loan shall be approved by creditors holding at least two-  
49 thirds in amount of the claims of creditors responding to the independ-  
50 ent monitor within that thirty-day period.

51 4. In order for the priority of repayment, and corresponding subordi-  
52 nation, under section two hundred twenty-eight of this article to be  
53 effective, any such loan shall additionally be approved by creditors  
54 holding at least two-thirds in principal amount of the covered claims of  
55 the creditors responding to the independent monitor within that thirty-  
56 day period. Claims shall be deemed to be covered if they are governed by

1 this article or by the law of another jurisdiction that is substantially  
2 in the form of this article.

3 § 228. Priority of repayment. 1. The debtor state shall repay loans  
4 approved under section two hundred twenty-seven of this article prior to  
5 paying any other claims.

6 2. The claims of creditors of the debtor state are subordinated to the  
7 extent needed to effectuate the priority payment under this section.  
8 Such claims are not subordinated for any other purpose.

9 3. The priority of payment, and corresponding subordination, under  
10 this section is expressly subject to the approval by creditors under  
11 subdivision four of section two hundred twenty-seven of this article.

12 § 229. Adjudication of disputes. The independent monitor may request  
13 that a court of competent jurisdiction appoint a referee or a special  
14 master to make recommendations to the court regarding the resolution of  
15 any disputes arising under a section 223 claim under this article.

16 § 230. Recoverability of section 230 claims. Any section 230 claim  
17 incurred prior to the date of an eligible state's application to partic-  
18 ipate in one or more international initiatives shall only be recovera-  
19 ble:

20 1. to the extent that it comports with burden-sharing standards;

21 2. provided it meets robust disclosure standards, including intercred-  
22 itor data sharing and a broad presumption in favor of public disclosure  
23 of material terms and conditions of such claims; and

24 3. only up to the proportion of the eligible claim that would have  
25 been recoverable by the United States federal government under the  
26 applicable international initiative if the United States federal govern-  
27 ment had been the creditor holding the eligible claim, and without  
28 regard to de minimis clauses.

29 § 231. Application; opt in. 1. Where this article applies, it shall  
30 operate both retroactively and prospectively and, without limiting the  
31 foregoing, shall with respect to section 223 claims override any  
32 contractual provisions that are inconsistent with the provisions of this  
33 article. Notwithstanding the foregoing, the provisions of this article  
34 shall not operate retroactively as to debtor states that are not sover-  
35 ein nations.

36 2. Any creditors of a debtor state whose claims are not otherwise  
37 governed by this article may contractually opt in to this article's  
38 terms, conditions, and provisions.

39 3. The terms, conditions, and provisions of this article shall apply  
40 to the debtor-creditor relationship between the debtor state and credi-  
41 tors opting in under subdivision two of this section as if such  
42 relationship were governed by the laws of New York state under subdivi-  
43 sion three of section two hundred twenty-three of this article.

44 § 232. Severability. If any provision of this article or its applica-  
45 tion to any person or circumstance is held invalid, the invalidity  
46 shall not affect other provisions or applications of this article which  
47 can be given effect without the invalid provision or application, and  
48 to this end, the provisions of this article are severable. Without  
49 limiting the foregoing, a debtor state's choice to have claims covered  
50 as a section 223 claim shall be valid even if its choice to have claims  
51 covered as a section 230 claim of this article would be invalid, and  
52 vice versa.

53 § 3. This act shall take effect immediately.