

Update: Argentina’s Debt Crisis Continues as Debt Swap Legislation is Proposed

By Nahal Bahri, J.D. Candidate 2015 | August 26, 2014

After a rocky summer, Argentina is trying to push itself through its recent [debt default](#) by proposing new legislation that could potentially pull the country out of its current financial crisis. Last week, in a speech addressed to the nation, President Cristina Fernández announced a plan for [legislation](#) that would allow bondholders to swap “their debt issued under foreign law for bonds of the same value governed by local law.”

This new plan would allow Argentina to use Banco de la Nación in Buenos Aires instead of Bank of New York Mellon, which is currently a trustee. In [discussing the plan](#), the President said, “the swap will be voluntary and the government will also deposit funds for the holdouts in a show of “good faith” under the terms of the 2010 debt restructuring.” Some of the holdout hedge funds include NML Capital Limited and Aurelius Capital Management.

All of the issues surrounding Argentina’s default stems from a U.S. [court ruling](#) which “blocked an interest payment of \$539 million owed to holders of debt issued under U.S. legislation that was restructured after the country’s record 2002 default.” The U.S. Supreme Court upheld this decision by a New York court, but [Argentina](#) saw this move as an “attack on Argentine sovereignty.” President Fernández hopes that this proposed legislation would allow Argentina to have full control over its debt and manage it as it deems appropriate.

While this legislation could give Argentina the ability to manage its debt, [analysts](#) are concerned that if bondholders choose to swap their debt for “new public bonds,” it could “kill hopes that Argentina might soon reach a deal with the hedge-fund holdouts, enabling it to exit default.” If this happens, Argentina may be stuck in its economic recession.

One remaining [question](#) analysts are concerned about surrounds the effectiveness of the plan if “bondholders chose not to swap their debt for local-law bonds, or if they refused to accept Banco de la Nación as a fiduciary agent.” This question will only be answered if the legislation is passed and if bondholders actually decide to swap their debt. In the meantime, the U.S. and the world will wait and watch how events will unfold in Argentina.

For news on Argentina’s debt default, see *Argentina’s Debt Crisis*, available [here](#).