



Argentina debt: Why it matters

Are hedge fund managers really 'vultures'?

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NEW YORK - Argentina's 13-year fight with creditors erupted in U.S. courts last week, and the results were messy.

Argentina had asked the U.S. Supreme Court to overturn a lower court's ruling that it must pay \$1.5 billion to hedge funds that own bonds the country had defaulted on back in 2001. The Supreme Court refused to hear its appeal — a victory for the hedge fund investors whom Argentina's president, Cristina Fernández, calls "vultures."

Fernández had said Argentina couldn't afford to pay off the hedge funds while also making regular interest payments to other lenders. Late last week, signs of a possible resolution emerged. Fernández said she will seek a U.S. judge's support for resolving all of Argentina's unpaid debts in one grand bargain.

But the time for a resolution is running out. Argentina has one week before it's supposed to make an interest

payment to its other bond holders on June 30. The U.S. court said that if Argentina made those interest payments, it also had to give the plaintiffs their due. And if Argentina refuses to comply, the ruling bars U.S. banks from handling the government's debt payments.

Just how did Argentina wind up in this mess? Here are some questions and answers:

WHAT HAPPENED?

A: A lot. After the Supreme Court turned Argentina down, it also decided to let bondholders subpoena banks in U.S. courts to track down Argentina's assets abroad. The decisions drove the country's Merval stock index down 11 percent last Monday.

The next day, the rating agency Standard & Poor's cut Argentina's rating further into junk territory — to CCC-, S&P's lowest grade for any country.

WHO ARE THE PLAYERS?

In one corner, Argentina's government. In the other, a group of investors led

by NML Capital, a subsidiary of Elliot Capital Management, run by billionaire Paul Singer.

WHAT DO THEY WANT?

When the hedge funds bought the defaulted bonds, they joined the ranks of Argentina's creditors. Now, like lenders everywhere, they want the borrower to repay its debts on the original terms.

The problem is, other creditors had already agreed to cut Argentina a break in 2005 and 2010 by swapping their bonds for new ones worth less. This helped Argentina's government slash its debts.

WHY A US COURT?

Sovereign countries have no dedicated international court to help them strike deals with creditors. So in agreements involving bond sales, any legal battle must occur in one of the two biggest financial capitals: New York or London.

WHY DOES THIS MATTER?

One worry is that forcing Argentina to pay would set a dangerous precedent by encouraging bondholders to play tough with struggling countries.