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Argentina Has a Bond It Wants to Sell You

Deadbeat nations should be kept out of U.S. capital markets.

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Argentina reportedly intends to file for Securities and Exchange Commission approval to re-enter U.S. capital markets. The SEC should instead insist that Argentine securities bear a warning like cigarette packages: "This issuer has a record of misrepresentation, debt defaults and debt repudiation, and therefore may be dangerous to your financial health. Do not consume this issuer's bonds unless you have a platoon of lawyers and a Navy to back them up, and you're prepared to use both."

In this global economic crisis, Argentina's financial behavior is especially worrisome. Its status as history's largest sovereign debt defaulter; its unprecedented repudiation in 2005 of bonds held by those who balked at substandard terms for restructuring; and the lack of transparency and fulsome disclosure surrounding its current capital raising efforts set a dangerous example.

If the SEC fails to keep Argentina out of our capital markets -- or set clear terms for its re-entry -- it could encourage other nations to follow that country's irresponsible path.

In 2001, Argentina defaulted on \$81 billion in sovereign bonds. Four years later it presented a unilateral, nonnegotiable restructuring plan worth about 25 cents on the dollar. When half of its foreign lenders said "no thanks," Buenos Aires repudiated their claims.

Since Argentina had earlier agreed to waive sovereign immunity and accept the jurisdiction and judgments of New York courts, more than 160 lawsuits were filed. But the governments of Nestor Kirchner and of his wife and successor, Christina Fernandez, have ignored numerous court judgments. Judge Thomas Griesa has repeatedly condemned their conduct, noting in 2005 that "I have not heard one single word from the [Argentine] Republic except ways to avoid paying those judgments." Nothing has changed since then.

If Argentina gets away with its misdeeds -- offering terrible terms for restructuring its debt and then repudiating its obligations to those who object -- the likelihood of additional defaults could increase substantially. If that occurs, it would inflict another serious blow to a global financial system in crisis.

Already, Buenos Aires's scofflaw behavior is being imitated. Citing Argentina's example, Ecuador recently defaulted on sovereign debts issued in the U.S., though it has the means to meet its obligations. The default drove down the market price of the bonds. The Correa government then entered the American secondary market with a massive repurchase program, scooping up much of its own debt at a very steep discount.

If the offering documents Argentina has submitted to the SEC in the past are any indication, its forthcoming filings will be replete with misleading or meaningless representations. They will inevitably include another pledge to submit

to U.S. court jurisdiction and to be bound by any resulting court judgments in the event of default. And they will almost certainly lack candid disclosure about that country's true financial condition -- its \$35 billion in outstanding but repudiated debt to foreign creditors, its cozy financial dealings with the Chávez regime in Venezuela, its grossly understated inflation rate, or its recent binge of expropriating assets within its reach to meet its mounting financial obligations.

This issue has already caught the attention of Congress. Rep. Ed Towns (D., N.Y.) supported legislation last year to bar deadbeat foreign governments from our financial markets. He is now chairman of the House Government Reform Committee. Standing up to the world's largest debt defaulter and repudiator would seem to be a minimal step that the SEC should take to protect the integrity of the markets it oversees.

Mr. Shapiro was under secretary of commerce during the Clinton administration. Ms. Soderberg served on the National Security Council during the Clinton administration. They are the co-chairs of the American Task Force Argentina, a coalition of investors and citizen groups seeking a just resolution to Argentina's debt default.

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