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The Main Players in the Ukraine Debt Battle — Will They Sink or Swim?

By The Moscow Times

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Ukraine's Finance Minister Natalia Yaresko attends a meeting to report on the work done during the first 100 days of the Ukrainian government in Kiev, March 12, 2015.

Three years after facing off over Greece's debt workout, the two giants of debt restructuring — Lazard and Blackstone – are again preparing to do battle, one for Ukraine and the latter on behalf of its creditors.

The aim of having private investors take a $15.3 billion hit on their Ukrainian debt holdings as part of a $40 billion international rescue package sounds like peanuts compared to Greece, where creditors took a 75 percent haircut on 200 billion euro of debt. But Russia's involvement this time is injecting an extra frisson: accused of supporting an anti-Kiev insurgency, Moscow is also a prominent creditor potentially capable of derailing the plan.

Another prominent player is Franklin Templeton, one of the world's biggest asset managers, whose star investor, Michael Hasenstab, has staked over $6 billion of clients' money –

and his reputation – on Ukraine.

Here are profiles of some of the main players in the talks.

Ukraine – Natalia Yaresko

Ukraine's U.S.-born finance minister, a former State Department official and fund manager, received Ukrainian citizenship only last December when she took up the job. She speaks fluent Ukrainian, albeit with an old-fashioned accent common to descendants of Ukrainian immigrants in North America.

For a Ukrainian government salary a tiny fraction of what she once earned, Yaresko is said to work from 7:30 a.m. to midnight as part of her mission to put Ukraine's finances on track. She says her private sector experience makes her sensitive to the creditors' interests.

Her message to investors has been clear: first, the $15.3 billion target is "set in stone", and second, Greece's restructuring experience proves Ukraine must cut its debt, rather than just extending bond maturities.

Russia – Sergei Storchak

Moscow has rejected restructuring and says it will not participate; arguing the $3 billion Ukrainian Eurobond it holds must be classed as bilateral rather than private debt.

Deputy Finance Minister Storchak, who negotiated the repayment of $21.3 billion to the Paris Club of creditor states in 2006, has been arguing Moscow's position. He was arrested in 2007 on embezzlement charges that were dropped for lack of evidence.

Lazard – Bozidar Djelic

A former Serbian finance minister and Belgrade's EU entry negotiator, Djelic heads the team advising Ukraine at French debt advisory firm Lazard.

Djelic joined Lazard only last year but the firm, since advising Indonesia in the 1970s, has built a fearsome reputation in sovereign restructurings, most recently forcing Greece's creditors to take the 75 percent haircut.

Djelic, who speaks six languages and has an MBA from Harvard Business School, has worked for Credit Agricole and McKinsey, among others, and in the early 1990s advised the Russian and Polish governments on privatizations. In 2012, he ran for president of the European Bank for Reconstruction and Development (EBRD), arguing that as a "transition citizen", born in Serbia, raised in France and educated in the United States, he was ideally placed to lead the institution.

Whatever his negotiating skills, observers reckon he has a strong hand. "Generally speaking, in sovereign debt restructurings, debtors have a decisive advantage," said Mark Walker, head of sovereign advisory at Millstein and Co. in New York and a former senior advisor at Lazard who co-led the recovery team for Greece in 2011-2012.

"In Ukraine's case, the creditors would be hard pressed to recover payment because the country likely doesn't have any resources outside the country they can seize, and no resources inside the country with which to pay."

Franklin Templeton – Michael Hasenstab

The fund manager, known for pulling off big contrarian bets in Hungary and Ireland, may have met his match in Ukraine, where he holds over a third of sovereign Eurobonds. Hasenstab has stayed silent on Ukraine, other than a video shot in Kiev last April, in which he said he was confident Ukraine would flourish over the next 5-10 years.

But with a big write-down on Ukraine looming, investors made net withdrawals of $2.24 billion from the $69 billion Global Bond fund last year, according to Lipper data. Most of the outflows happened in December.

"By taking a large share of the market of a small country, Templeton and Hasenstab became hostage to their own investment policy," one bondholder said. "I can't see what choice they have now. They can block restructuring but if it becomes distressed debt, they may have to sell at a loss."

Templeton has also set up a creditors' committee, hiring Blackstone and law firm Weil Gotshall to advise it. But its supposedly high-handed methods have irked some other creditors.

"Franklin isn't talking with anyone," said one person who holds Ukrainian debt. "Other bondholders are talking, so the question is, will they play ball or try to strong-arm the rest of us?"

Blackstone – Martin Gudgeon

Advising Ukraine's creditors is the latest in a series of high-profile roles. Blackstone has landed in Europe since Gudgeon joined the firm as head of European Restructuring in 2007. He is among the top global names advising on how to deal with multi-billion dollar debt piles; assignments from his past include Italy's Parmalat, Dubai World and UK bank Northern Rock.

Interestingly, Gudgeon sat on the other side of the table in 2009 when Blackstone acted for Ukraine after the global crisis led to the default of state energy firm Naftogaz. Blackstone was paid 1 million euro a month for this, with bodyguards for employees thrown in, the Financial Times reported at the time.

Under Gudgeon, Blackstone won the prize mandate of advising Greece's creditor committee in 2011, helping ensure that new notes swapped for old ones were under English law and effectively guaranteed by the European Financial Stability Facility. That made it hard for further cuts to be made to this debt.

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