**Argentina Debt Deal Faces Hurdles Despite Bond Offer**

Most U.S. hedge funds haven’t signaled their approval of Buenos Aires’s $6.5 billion offer

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An end to a stalemate over Argentina’s defaulted debt faces a number of hurdles despite the country’s new $6.5 billion offer to U.S. bondholders Friday, said people familiar with the matter.

An agreement would have to contend with a number of thorny issues in the U.S. and Argentina as large debt owners haven’t yet signaled their approval, these people said. Argentina is trying to settle with these holdouts so it can return to the global bond market.

The government’s proposal was its first formal offer to U.S. bondholders since Argentina defaulted on more than $80 billion of debt in 2001, the largest government default at the time.

The offer represented 75% of the amount bondholders say they are owed, and any deal is expected to serve as a model for settlement talks with hundreds of other creditors who have sued the government.

Most of the U.S. hedge funds that own the debt—including one of the biggest creditors,[Paul Singer](http://topics.wsj.com/person/S/Paul-Singer/1093)’s Elliott Capital Management—haven’t signaled their approval of the offer, say people familiar with the matter. Analysts believe that some of these bondholders feel little pressure to rush to an agreement and may be inclined to push for better terms.

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While newly elected, business-friendly President Mauricio Macri has pledged to end the standoff between Argentina and bondholders, he is expected to face strong opposition from much of the population and some members of Argentina’s Congress, who have derided bondholders as “vultures.”

Hundreds of smaller debtholders must also get on board with an agreement. There is a risk that these mostly local investors could try to scuttle a deal that works for big U.S. hedge funds.

Argentina’s negotiators have already left New York City, the setting last week for the most recent meetings to break the stalemate, a sign that no immediate agreement is expected, say people briefed on the matter.

“It’s not time to pop the champagne,” said Charles Blitzer, an economist and former senior International Monetary Fund staffer, who has been involved in many sovereign-debt restructurings. “It’s this kind of unilateral offer that got them into trouble five and even 10 years ago. They need to communicate with more creditors and actually negotiate.”

The default issue has been a lingering and painful problem for Argentina because it effectively bars the government from borrowing any money in the international capital markets. The new administration views a global bond offering as crucial for raising new capital to stimulate an economy mired in recession.

Mr. Macri has some reasons for optimism. The Finance Ministry said in a statement that some creditors, including Dart Management and Montreux Partners, had already agreed to accept the offer. Representatives of those firms couldn’t be reached or declined to comment.

Mark Brodsky, chairman of Aurelius Capital Management, another of the lead holdouts, said that his firm is not insisting on getting paid in full. “We have always been willing to take a haircut,” he said​ in a statement.

Even Mr. Singer has said as recently as July that his firm would be willing to negotiate with Argentine officials and accept a discount to full value.

“In the past, these hedge funds, particularly Elliott, have said ‘we’re entitled to full payment,’” said Mark Cymrot, a partner with BakerHostetler in Washington. “The truth is, you can’t get a very determined sovereign to pay.”

That Argentine negotiators, including Financial Secretary Luis Caputo, traveled to New York to meet with bondholders is a step forward. Mr. Macri became personally involved, holding a phone call with the U.S. District Court-appointed mediator last week. By contrast, U.S. bondholders’ request last year to resume negotiations received no response from the former Peronist-led government.

Yet people on both sides think there is much more work to be done.

Any deal would have to overcome significant political opposition. Former President[Cristina Kirchner](http://topics.wsj.com/person/K/Cristina-Kirchner/6453) made blaming the holdouts a pillar of her political discourse. Posters and banners proclaimed “Fatherland or Vultures,” implying that Argentines had to choose between defending their country or betraying it by siding with the bondholders.

On social-media networks over the weekend, opponents of the government’s offer accused Mr. Macri of selling out, saying that even if Argentina pays the holdouts 75% of what they are owed, Mr. Singer would be making a windfall.

“Being friendly with creditors, taking on debt and seducing Wall Street ends up leading to banking and currency crises,” Alejandro Vanoli, Argentina’s central-bank president under Mrs. Kirchner, said in a [Twitter](http://quotes.wsj.com/TWTR) post on Saturday.

Some smaller Argentine debtholders may continue to hold out.

Jennifer Scullion, a partner at Proskauer Rose LLP representing bondholders in eight class-action cases in New York, said Argentina hasn’t included them in negotiations. The two sides are arguing over how to quantify the size of those classes, and Ms. Scullion said she would move for an injunction if the government settles with other bondholders before they have agreed to a deal with her clients.

“These are literally the same bonds,” she said. “We have the same rights.”

Some think the hedge funds would be wise to make a deal, considering that 93% of Argentina’s bondholders have already agreed to offers that pay about 30 cents on the dollar.

“They will never find a more market-friendly administration in Argentina than this one. So, if they reject what is now on offer—say out of greed—than they will probably have to wait a whole lot longer to get paid,” said Jan Dehn, head of research at London-based asset manager Ashmore Group, which oversees about $50 billion. His firm owns Argentine bonds but isn’t part of the U.S. group dealing with the government.