Comment

Alicia Garcia Herrero and Enestor Dos Santos: Nieto-Parra's paper clearly touches upon an interesting topic, namely, the microstructure of emerging countries' sovereign bond markets. The idea that fees contain important economic information seems fruitful.

Although the fact that investment banks price sovereign default risk well before crises occur and before investors detect default risk is, per se, interesting, it seems to us that the main contribution of the paper is to suggest that this information can be used to foresee a sovereign debt crisis. Some evidence regarding this utilization of data on fees is presented by the author, but we think that this issue could be more carefully studied in future works. In doing so, it would be interesting to look deeper into the fees charged across the whole sample and not only in the crisis years, as well as to see how underwriting fees evolve during noncrisis times. The comparison of noncrisis with crisis years seems natural and pertinent.

The regressions presented in the paper are based on bond level. This partially addresses the problem of defining a biased frequency (yearly, quarterly, or monthly). Throughout the paper, however, the author notes that investment banks charge higher fees three years before a crisis. Although we can find in figure 3 information on how the retention coefficient (fee over sovereign bond spread) performs months before the onset of the crisis, it would have been interesting to consider using quarterly or even monthly data throughout the study. Yearly aggregation can hide some important features. Moreover, it seems natural to think that some crises could be anticipated months before they occur rather than years.

Although we have not observed purely sovereign debt crises for emerging economies in recent years, another notable way to extend the current work (and to check the assumptions tested) would be the use of recent data (up to 2009) to see how fees and spreads behaved before the current crisis for different groups of emerging countries.

There are some other stories that could be told to explain why fees and spread evolve in different ways before, during, and after crises—for example, different cost structure or different risk aversion between investors and investment banks or differences in the markets in which they are traded. It would be interesting to test the importance of these other stories and how robust the results are to the inclusion of variables capturing them.

As emphasized by the author, it is puzzling that underwriting provides useful information that investors do not employ when making their portfolio decisions. This puzzle has diverse implications for public policy, and its revelation by the author is certainly another significant contribution of the paper.

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