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Greek debt holders in bond swap offer

By Peter Spiegel in Brussels

Negotiators for Greek debt holders have offered to swap their bonds for new ones worth half their current face value, but only if the new bonds contain high interest rates and have extra incentives, including annual payments if Greece's economy recovers.

The offer, contained in a "confidential" proposal presented to Greek authorities on Sunday and obtained by the Financial Times, also insists the new bonds be issued under British rather than Greek law, which would prevent Athens from forcing fresh losses on bondholders in the future.

The talks between bondholders and Athens are scheduled to begin on Thursday in Frankfurt, where Greek officials are expected to present a counterproposal.

The negotiations are intended to finalise details of the highly touted deal struck on October 27 in which the Institute of International Finance, a consortium of Greek bondholders, agreed to take a 50 per cent "haircut" in the face value of their bonds.

The deal, struck during all-night negotiations at a summit in Brussels, left open questions on how the 50 per cent haircut would be achieved, details that could leave bondholders in a better position than European leaders touted.

Tweaks in interest rates and maturities for bonds used in swaps for the haircut can have a critical effect on how much bondholders are able to recoup, enabling them to achieve less of a hit on the net present value of their holdings than the headline number announce by European leaders.

The IIF proposals, which include three different swap options, all claim to lead to a reduction of net present value (NPV) of 51-53 per cent. But that calculation is reached using a "discount rate" of 12 per cent – a third higher than the 9 per cent used in the now-scrapped deal struck in July.

The 9 per cent rate was criticised in many quarters as too high. A recent report on the Greek deal by Barclays Capital used a discount rate of 3.15 per cent. A bond's discount rate is an estimate of how fast the value of money is reduced over time. A higher discount rate makes the new bonds look less valuable when they are swapped.

People involved in the negotiations said advisers to Greece had started circulating rival proposals that would lead to a NPV loss of 70-80 per cent. "They are trying to pick off investors one by one to stop them presenting a cohesive front," one person said.

Under the most straight-forward IIF option, bondholders would swap their current bonds for new ones that are worth 50 per cent of their current holdings, but they would come with an annual interest rates of 8 per cent – meaning that bondholders would be getting nearly the same annual payments they are now.

In addition, the new bonds would come with new "GDP warrants". Under the IIF proposal, these warrants amount to additional payments to debt holders if Greece improves its economic growth faster than Eurostat anticipates. "These potential gains would help contain the total NPV losses for investors," the offer said.

The new bonds would also be backed by €30bn in collateral, money that would have to be raised by eurozone governments.

The other two proposals would be used in tandem, and have been included at the suggestion of the Greek government, according to a Greek banker with knowledge of the discussions.

Under this scenario, foreign investors would be offered a similar deal, but Greek investors – which include struggling Greek banks and pension funds – would get only a 37 per cent face-value hair cut. But unlike the offer to outside bondholders, there would be no collateral backing up the new bonds they get in a swap.

Additional reporting by Kerin Hope in Athens and Richard Milne in London

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