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Swap deadline looms for Greek debt holders

By Richard Milne in London

Time is running out to complete a bond swap deal with holders of Greek debt but participants say there is still some emergency wiggle room if needed.

A big debt redemption of about €14.5bn on March 20 is concentrating attention not just because Athens needs the money to pay back bondholders but also because if that bond is excluded the arithmetic of Greek debt sustainability looks impossible to solve.

Greece has been planning to conclude the deal with private sector bondholders, who hold about €200bn in Greek bonds and would take losses of about 70 per cent under the swap, by Monday at the latest. An offer to them would then open for about three weeks, people involved in the negotiations say. Settlement then usually occurs after three days, meaning that the process could be concluded by about March 8, these people say.

"It is tight. This is a complex transaction. In many, many cases investors are going to need board approval," said one person close to European bondholders.

The wiggle room could come from allowing just two weeks for the offer, meaning it could open on February 20 or even later, while settlement could occur closer to the March 20 redemption if necessary.

But people involved in the negotiations cautioned against assuming the process would necessarily be plain sailing. They contrasted the current lengthy discussions, which have gone on since October, with the initial negotiations last July. Advisers to Greece sent investors questionnaires last summer and went on roadshows to present the concept of a debt swap.

This time round, people close to bondholders say, many investors have been paying less attention to the talks, not least because they have been dragging on so long. "It seems odd but a lot of investors have kind of forgotten about this. Now it will come on them and they will have to decide in a snap. So there is still a lot of potential for investors to be disgruntled by this," said a person close to bondholders.

Greece also needs to enact legislation enabling it retroactively to insert so-called collective action clauses into its existing bonds. CACs would allow Athens to impose the will of a supermajority of investors – normally two-thirds or three-quarters – on any holdouts. Only by

having full participation can Greece get anywhere close to the debt sustainability numbers urged on it by international lenders.

Several unanswered questions remain. One of the biggest is what happens if participation falls below the level needed to trigger CACs. The entire Greek package could then be in doubt.

Another is about the fate of Portugal. Participants in the Greek talks say not a word has been spoken about Lisbon, seen by markets as the most likely other eurozone country to need a second bail-out, as its bond yields are so high regaining market access looks tricky.

"There are some fundamental questions to be answered. People are very fatigued after Greece. And now markets are pretty clement. But these things are going to have to be discussed pretty quickly," said one person present at the negotiations.

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