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Greek bond swap deal rests on knife-edge

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Greece faces a decisive week in its struggle to avert a sovereign default, with a planned debt swap poised on a knife-edge amid doubts over the level of participation by private bondholders.

The government's tender offer has got off to a slow start, with its advisers trying to round up non-institutional bondholders and even Greek investors showing reluctance to sign up quickly, according to insiders.

Private holders of €206bn in Greek bonds have until Thursday evening to decide whether to take part in a swap where they would trade bonds for a package of bonds and cash that would knock about €100bn off Athens' debts.

Greece must get 75 per cent of holders to participate to avoid forcing the deal on holdouts through so-called "collective action clauses" which were inserted retroactively into Greek bonds by the government last week. If less than 66 per cent participate, even the CACs would become invalid, scuppering the entire deal.

People close to some bondholders warned other investors to take seriously threats by policymakers that if the deal fails Greece will default on its debt. "Some investors seem to think they will be rescued. That just isn't the case," one said.

People involved in the deal denied that there was any nervousness about the outcome but nobody was willing to guess how high the participation rate would be.

Charles Dallara, the head of the international consortium of financial institutions that negotiated the debt restructuring, declined to predict the rate but acknowledged that the complexity of the deal had required some investors to spend time understanding it. He added: "They're asking a lot of questions.

"It's the largest debt restructuring in history. It's also the most complex." Mr Dallara, whose Institute of International Finance represents more than 450 financial institutions. "I understand it takes a little while to get their hands around it."

Several investors said they expected that collective action clauses would need to be used, triggering credit default swaps. But some people close to the deal admitted other outcomes were possible: "We are confident. But ultimately this is all fingers in the wind type stuff."

Many investors need to decide by Tuesday because of the complications of the deal. Because of the size of their holdings, a large number of bondholders will have to consult their boards, especially as the loss is about 75 per cent in net present value terms.

"We are entering the unknown. Everyone has their fingers crossed. But we are going to be flying blind for a few days," an insider said.

A government official confirmed on Sunday that Greece plans to hold a general election on April 29 or May 6, which would deepen the current uncertainty as opinion polls show neither of the two political parties in the current coalition can win an outright parliamentary majority.

An opinion poll published on Sunday in Kathimerini, an Athens daily, put the conservative New Democracy party ahead with 28 per cent of the vote, with the Panhellenic Socialist Movement trailing in fourth place with 11 per cent.

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