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EUROPE

GREEK PSI DEAL COMPLETED

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INTRODUCTION

On 24 February 2012, Greece opened the Private Sector Involvement debt swap deal (PSI) to bondholders. Essentially the deal involved a swap that meant bondholders would have to accept a 53.5% cut on the face value of their bonds which, in real terms, meant a loss of approximately 75% on their investment. The deal will be the largest financial restructuring in history, dwarfing the Argentinean restructuring in 2005 valued at EUR 33.3 bn and even the Brazilian restructuring back in 1988 which was, until now, the largest restructuring at EUR 47.3 bn. The offer closed on 8 March 2012.

For the deal to be a success, certain thresholds would need to be met and decisions to be taken:

- at least 50% of bondholders needed to participate for the quorum requirements to be met;
- 66% needed to actually tender their bonds for Greece to be able to activate the Collective Action Clauses (CACs)[1] if necessary;
- if Greece activated the CACs, it could achieve a maximum of 86% participation - which is all of the Greek law bonds issued;
- a minimum of 95% participation in the total PSI deal (Greek law and non-Greek law bonds) is required for Greece to be able to reduce its debt to 120% of GDP – the target for obtaining the second bail-out package that Greece needs to avoid default.

GREEK PSI DEAL SUCCESSFUL

On Friday 9 March, Greece announced that the PSI deal had been successfully completed with 85.8% (or approximately EUR 152 bn) of the EUR 177 bn in Greek law bonds being tendered. This meant that the threshold of 66% had been achieved, allowing Greece to activate the Collective Action Clauses which would force the remaining Greek law bondholders to accept the terms as well.

In addition, in the meantime, Greece confirmed it had received tenders for around 69% of the non-Greek law bonds, bringing the total of tendered bonds under the PSI deal up to approximately EUR 197 bn or 95.7% of the total face value of the bonds subject to the deal[2]. To view the official press release, click here:

http://www.minfin.gr/portal/en/resource/contentObject/id/8bbbe20f-179a-4c16-bded-d78a-c77a73f7

The markets soared and the deal was hailed as a success by Greece, Eurozone finance ministers, the IMF and the ECB. Greece claims it is to be a new beginning and Eurozone finance ministers hope it is a beginning to the end of the Eurozone's financial crisis.

[1] Clauses that would force bondholders to tender their bonds.
[2] Source: Press Release of the Ministry of Finance of the Hellenic Republic dated 9 March 2012.

However, experts remain skeptical whether this will fix the problem or whether it, in fact, is just buying time. Most experts still believe that Greece will either need a third bailout later down the line, or will be forced to default and leave the Eurozone anyway. Only time will tell.

CDSS TRIGGERED

An important consequence of Greece activating the CACs, is the consequential impact it could have on the Credit Default Swaps (CDSs) issued in connection with the bonds, carrying an estimated aggregate value of EUR 2.43 bn. For more detail on the issues surrounding the CDSs, please see our update on CDS dated 6 March.

Late on Friday 9 March, the ISDA's EMEA Determination Committee ruled that the activation of the Collective Action Clauses had triggered a Credit Event and that an auction will be held through which the net pay outs under the Greek debt will be determined. The net cash payout on a CDS upon the occurrence of a Credit Event, is the face value of the CDS minus the recovery value of the underlying bonds as determined at the CDS auction. For example, if the CDS auction results in a recovery value of 25%, the aggregate amount payable would, in this case be 75% of EUR 2.43 bn: EUR 1.82 bn. The auction will be held on 19 March 2012.

Although the decision of the ISDA Determination Committee was expected, it has still been hailed as an important decision in confirming the nature and role of CDSs in respect of sovereign debt. Had the ISDA ruled otherwise, experts argue that CDSs would have become incredible and unreliable as a financial product and could have resulted in troubled Eurozone countries seeing their bond yields rise as investors try to find an alternative way to hedge their risk. Again, see our update on Credit Default Swaps for more information in this respect.

For the official statement by the ISDA EMEA Determination Committee, follow the link:

http://www2.isda.org/news/isda-emea-determinations-committee-restructuring-credit-event-has-occurred-with-respect-to-the-hellenic-republic

SECOND BAIL-OUT PACKAGE APPROVED

As a result of the completion of the PSI deal (and Greece meeting the other requirements), European finance ministers agreed, on 12 March 2012 at a conference, that Greece's EUR 130 bn second bail-out package should proceed. The official approval will be issued on 14 March 2012.

[3] The International Swaps and Derivatives Association (ISDA), which is made up of high profile banks, hedge funds and investment houses.