Flashnote

HSBC Global Research

Global Research
Fixed Income Strategy

Greek PSI timeline and possible outcomes

Greece launches PSI

- **Greece has published the Invitation Memorandum for the Private Sector Initiative, seeking to exchange bonds and change the terms of existing bonds**
- **We give a timetable and flowchart for the transaction, and clarify a number of points**
- **If the Consent Solicitation meets the CAC threshold for a bond or series of bonds, it becomes binding on all holders and would likely trigger CDS**

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The PSI process is complex and bondholders should refer to the Invitation Memorandum dated 24 February 2012 and associated documents for a complete explanation of the proposal.

In this note, we give:

- A timetable for the transaction;
- A flowchart of possible outcomes based on acceptance levels.

We also clarify the following points:

- The Exchange Offer and Consent Solicitation are separate processes;
- Collective Action Clauses have already been inserted into bonds;
- If the Consent Solicitation meets the CAC threshold for a bond or series of bonds, it becomes binding on all holders and would likely trigger CDS in our view;
- Eligible securities.

Disclosure: HSBC has been appointed as a closing agent in the proposed Greek bond exchange transaction

Transaction timetable

The Invitation Memorandum sets out a timetable for the implementation of the transaction, which can be varied at the discretion of the Hellenic Republic. Table 1 provides a summary of key dates:

Table 1: Transaction timetable

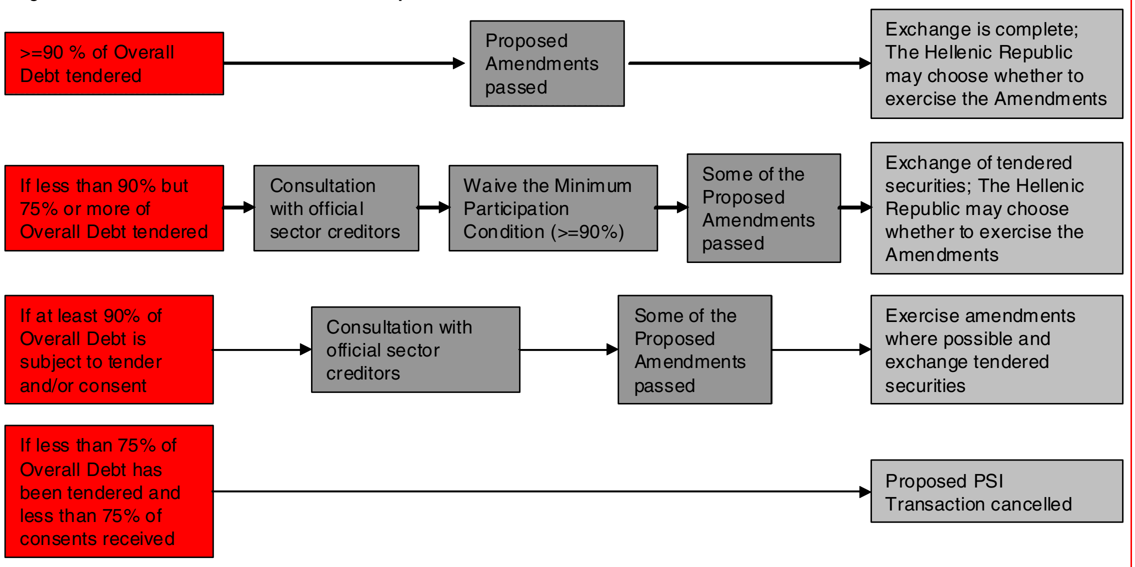
Date / Time	Event
24th February 2012	Invitation process launched
7th March 2012, 16:00 CET	Deadline for bondholders to revoke their instructions
8th March 2012, 21:00 CET	Deadline for tendering, results announced as soon as reasonably practicable
12th March 2012	Settlement of Greek Law bonds
27th – 29th March 2012	Foreign Law bondholders meetings
11th April 2012	Settlement of Foreign Law bonds

Source: Invitation Memorandum, 24 February 2012, HSBC FI Research

Acceptance levels and outcomes

Based on the press release by the Hellenic Republic Ministry of Finance, 24 February 2012 and the Invitation Memorandum of the same date, the outcomes of the Private Sector Involvement ('PSI') depend on the percentage of Overall Debt tendered and the proportion of consents received in favour of the Proposed Amendments (as defined in the Invitation Memorandum). Figure 1 provides an overview of the main acceptance levels and associated outcomes:

Figure 1: Possible outcomes for different acceptance and tender levels



Source: Invitation Memorandum, 24 February 2012, HSBC FI Research

A few clarifications

The PSI process is complex and bondholders should refer to the Invitation Memorandum dated 24 February 2012 and associated documents for a complete explanation of the proposal. We clarify several aspects based on questions we received from clients recently.

The Exchange Offer and Consent Solicitation are separate processes

On 24 February 2012 Greece launched an invitation for holders of domestic and foreign law bonds issued or guaranteed by Greece (covering EUR206bn of debt of which EUR177bn are government bonds under domestic law) to exchange their bonds into 31.5% new bonds with a final maturity of 2042 and an amortisation from 2011 to 2030; detachable GDP warrants with the same amount outstanding; and 15% PSI payment notes issued by the EFSF with 50% maturing after 12 months and 50% after 24 months. Accrued interest will be paid in 6 month EFSF notes.

Separately, a Consent Solicitation was launched where bond holders have been asked whether they agree to change the terms of existing bonds to give Greece the option to force the exchange onto bond holders who do not tender. It is possible to vote yes, no or to abstain without participating in the Exchange Offer; but holders who exchange will have to vote yes, except that for regulatory reasons a small number of bonds are subject to the Exchange Offer but not the Consent Solicitation, or vice versa.

Collective Action Clauses have already been inserted into bonds

On 23 February 2012, Collective Action Clauses were inserted into Greek law government bonds under the Greek Bondholder Act. To change bond terms requires (a) at least 50% of bond holders to vote (b) at least two thirds of those voting to vote yes, in both cases aggregated over all Greek law government bonds. Foreign law bonds already have Collective Action Clauses which typically have a quorum of 50% and a threshold of 75%.

If the Consent Solicitation meets the CAC threshold for a bond or series of bonds, it becomes binding on all holders and would likely trigger CDS

A Restructuring credit event occurs on the CDS if a bond or bonds issued or guaranteed by Greece suffer (a) a reduction in coupon or principal, an extension in maturity, an increase in subordination or a change to a non-permitted currency (b) due to a deterioration in credit quality (c) in a manner which is binding on all holders. Thus, and using the precedent of the Irish banks, if the Consent Solicitation meets the CAC threshold for one or more bonds, the CDS would be triggered in our view, whether or not Greece uses its new option to force the exchange onto bond holders who do not tender.

In our view, the new bonds and untendered international bonds out to 30y would likely be deliverable, with the auction price determined by the cheapest to deliver based on price as a percentage of new par.

Eligible securities

Bonds eligible for the PSI transaction exclude the circa EUR56.5bn (in face value) held by the Hellenic Republic, that were acquired from the ECB and certain National Central Banks before 22 February 2012 and that will be cancelled ahead of the expiration deadline of the PSI deal, according to the 24 February Invitation Memorandum (Table 2).

Total eligible bonds will be at an equivalent EUR206bn (non-euro bonds converted with FX rates provided by the Invitation Memorandum) and its lion's share, EUR177bn, consists of Greek Government Bond (GGB) issues, which are under Greek law. 'Foreign Law Republic Title' issues include mostly GREECE issues, which are under non-Greek law whilst issues from Hellenic Railways (HELNRR) and Athens Urban Transport Organization (OASAUR), also not governed by domestic law, sum to around EUR3bn.

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Table 2. Lion's share of eligible bonds consists of Greek Government Bonds (GGBs), which are under Greek law (EURbn)

Eligible Title (GGBs under Greek law)	177.3
Foreign Law Republic Title (mostly GREECE issues under non-Greek law)	16.9
Foreign Law Guaranteed Title (HELNRR) & Foreign Law Republic (OASAUR), issues under non-Greek law	3.0
Exchange only securities (including Guaranteed Title in Physical Form)	7.9
One CHF bond (eligible for consent solicitation, but not eligible for exchange transaction)	0.5
Total	**EUR205.6bn**

Source: Invitation Memorandum (24 February 2012) by the Hellenic Republic

Disclosure appendix

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