# PRESENTATION TO THE VIENNA SYMPOSIUM ON GREEK DEBT

## VIENNA, 17 May 2017

**The destructive effects of the Private Sector INVOLVEMENT IN GREECE**

**John Kyriakopoulos,**
**Former Managing Director & CEO of Hellenic Pension Fund Mgt Company,**
**CEO of KYROS LAW OFFICES**
**Legal representative of various affected investors –physical and legal entities- to greek and international legal fora (ICSID )**
[www.kyroslawoffices.gr](www.kyroslawoffices.gr)

**The exacarbation of the crisis:**
**The dramatic effect of the Greek Debt Restructuring Program (Private Sector Involvement-PSI) to the Assets of the Greek Pension Funds**

- ✖ Official Parliament records undoubtedly illustrate how the debt restructuring program was effected between 2010-2012: Major bondholders of Greek Debt were certain European Banks with more than 2/3 of the total volume until the dawn of the crisis in 2009; Until 2012 they had monetized almost 80% of it, while ECB and Greek Banks were purchasing those GGB's, increasing their holdings

- ✖ The ECB acted as a "last resort" buyer in order to provide liquidity and initiated the purchase of GGB's to the secondary markets and the Greek Banks -having agreed to be recapitalized by EFSF by 50 billion, partly for NPL's due to crisis and partly for their losses in GGB's- increased or kept their positions intact

- ✖ The Pension Funds allocations to GGB's which were obligatorily managed by the "Common Capital" (KOINO KEFALAIO) of the Bank of Greece (BoG) and should always be at least 77% of all their tangible assets, even though they shouldn't take part to the Private Sector Restructuring, as they were not defined as "Private Sector Institutions" but part of the "General Government" Balance Sheet, had to participate in lieu of the "pari passu" procedure…

- ✖ when the PSI was determined in March 2012, by Law 4052/2012, they lost in notional values 53,5% and in NVP more than 70%. A total loss of more than 13 billion euros!

- ✖ Eventhough the preceding Law 4046/2012 had been passed in order that "tantamount" state assets should be immediately transferred to the greek pension funds so that they would be compensated, it was never implemented.

- ✖ Only a small portion of it was recovered; And this was due to an "insightful" crisis management decision that an affiliate asset management company took (owned by the major Greek Pension Funds by 80% & the National Bank of Greece by 20%), namely "HPMF".

- The company  was holding more than 750 million Euros of GGB's to it's portfolio, and managed to "recalibrate" it by selling the risk free EFSF bonds at par and cautiously re-investing in new GGB's at a very low trading value. This didn't only mitigate the losses but created a quite substantial profit.
- https://www.ft.com/content/91aae2a6-75f4-11e2-8eb6-00144feabdc0
- With regard to the greek banks the domino effect unfolded very rapidly, mainly due to the fact that their GGB holdings lost their accreditation by the Credit Rating Agencies in a very short period of time between December 2009 to June 2010, turning from high credit A levels to non-investment grade junk bonds.
- Even though they received  unprecedented capital injections in a number of occasions between 2008 – 2015, their capacity to refinance their own debt by using as collateral GGB titles was seriously undermined.
- While money flew abroad, the most reasonable direction was the adjacent Cypriot Banks, through their Greek Braches.
- However, Cypriot Banks where heavily invested in GGB's too, creating a huge problem to their Capital Adequacy Ratio's since their possessions where very excessive too and by June 2010 they had literally overinvested in  "junk bonds".
- As they couldn't participate to the Greek ELA, and as recession hit the Cypriot Economy too, in 2013 Laiki Bank and Bank of Cyprus had to undergo capital restructuring, by Cypriot State decision,  "hitting" all kinds of subcategories of depositors, bondholders, equity holders etc. Most of the investors where Russian and Greek…
- Greek Banks, where violently restructured, under the premises of "systemically importance" guidelines, upon viability studies which were conducted, in some occasions with very questionable procedures.
- Their number was dramatically diminished to four (4), while all others were restructured to good and bad, sending billions of equity holdings of institutions, public and private, and hundreds of thousands of private investors to despair
- All bondholders of GGB's, mainly private investors who were plain depositors, more than 15.000 small and medium size investors, lost in notional value 53,5%, however in market values they lost more than 70%
- All bank bondholders, amounting to several billion of euros, lost their assets by 30-100%
- All equity holders of Greek and Cypriot Banks were diluted to unprecedented levels, as they lost more than 99,5% of their market values prior to 2012!
- Other categories of GGB holders, had to suffer extreme damages as well:

- A. Former Olympic Airways employees, who were paid their compensation after their dismissal by the former state air passenger company in GGB's, had to suffer damages too
- B. All Pharmaceutical Companies who were promised to receive their due payments (more than 5 billion) by the Greek State and the Greek Hospitals, they were also paid in GGB's… suffering immense losses.
- As several billion of tangible assets where evaporated, it was not only the banks that lost valuable resources to their funding:
- Since deposits where gone and all other assets of collateral value where "extinguished", margin calls to billions of loans occurred contemporaneously!
- Many commercial property loans, business loans as well as private loans for consumption or housing lost their collateral values and at the end, more than 50% of the total loans of Greek Banks have become insolvent!
- As financing to the economy became scarce, or rather non existing, recession hit hard the greek population, rapidly transforming to depression of unprecedented magnitude. Millions of jobs where lost, more than 500.000 of the most well educated and equipped human resources had to migrate abroad, leaving a rapidly aging population to extreme poverty. As the GDP percentage of state support to the pension system had to adjust to a fraction of the previous GDP up to date, pensions had to be cut almost to half, creating other domino destruction effects to consumption, life expectation and life standards in general.
- Edmond de Rothschild is noted by international press to have quoted, as other non biased financiers around the world that :
- The PSI process of the Greek Debt was implemented not in order to reboot the Greek Economy and save it from default, but to save major European Banks, which held the majority of the Greek debt. The result was to relieve the private debtors of Greece from defaulting and to burden the European states and the greek people with it.
- **To my opinion , this was the most shameful act of modern times, which seriously undermined the spirit of European Federalism.**