# AVM, L.P.

Summary Presentation to the Honorable Minister of Finance of the Hellenic Republic -- *An Alternative Sovereign Bond Structure*


Presented by: AVM, L.P.

Legal Advisors:
Elias Paraskevas Attorneys
Latham & Watkins LLP


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# Executive Summary

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- The Mosler Bonds introduced in this presentation have been designed to be sufficiently attractive to the banking system to facilitate funding of the Greek government at relatively attractive rates of interest.

- Within the euro banking system, lending is what creates the banking system's euro deposits. This means that the funds invested by the banking system in Mosler bonds due to their yield and safety will not reduce the euros available for other purposes.

- Mosler Bonds function the same as existing bonds, with one key difference: *In the event of delinquency, Mosler Bonds may be submitted at par (plus accrued interest) in the payment of any debt – including taxes – owed to the Greek government.*

# Executive Summary (continued)

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- By reducing the risk of loss to investors, as is now being faced by the holders of existing Greek bonds, Mosler Bonds could facilitate Greece's ability to:
  - Re-enter the bond markets, at significantly lower rates
  - Reduce its reliance on assistance programs
  - Increase the secondary market value of existing Greek bonds as the current bondholders see:
    - Greece entering the bond markets without any future need for external guarantees
    - An improvement in Greece's ability to repay its maturing debt
  - Regain a measure of financial independence, which would have a salutary effect on difficult compliance and social issues
  - Improve Greece's credit pipelines, restoring the better flow of credit to the domestic economy to facilitate a resumption of positive economic growth
  - Enhance Greece's ability to insure domestic bank deposits

# Who is the Team?

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- Warren Mosler, co-founder of AVM, L.P. ("AVM")
  - an international bond firm with 30 years of experience in European markets
- William McCauley, CEO of AVM
- Francis Feeney, Principal of AVM
- Basil Mavroleon, Principal of Anchor Asset Management - a European asset management firm
- Scott Wyler, General Counsel of AVM
- Legal Advisors:
  - Elias Paraskevas Attorneys, Greek counsel
  - Latham & Watkins LLP, international legal adviser and bond counsel

# What is the Mosler Plan?

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- A Plan to reduce Greece's sovereign default risk and remove any external dependency
- A Plan for newly issued, freely transferable sovereign bonds with a unique delinquency/default provision in the bond indenture/trust deed:
  - While in delinquency, and only during delinquency, Mosler Bonds can be used by the bearer – at face value plus accrued interest – for payment of any debts owed to the Greek Government by delivery of the bonds to the Government or its payment agent
  - Debts that could be paid include taxes, social security and pension obligations, state utility payments, concession payments, etc.
  - Banks could also present the bonds on behalf of depositors and other clients who have payment obligations to the Greek Government

# What are the Benefits of the Mosler Plan for Greece?

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- The ECB, IMF and EU would see Greece taking the lead in establishing a market for a new funding instrument which could also be used by other peripherals to fund themselves, thereby alleviating pressure on the stronger credit euro members to continue providing funding assistance
- Mosler Bonds could facilitate Greece's ability to:
  - Re-enter the bond markets, at significantly lower rates
  - Reduce its reliance on various external assistance programs
  - Increase the secondary market value of existing Greek bonds as the current bondholders see:
    - Greece entering the bond markets without any need for external guarantees
    - An improvement in Greece's ability to repay its maturing debt
  - Regain a greater measure of financial independence, which would have a salutary effect on difficult compliance and social issues
  - Greatly improve Greece's credit pipelines, allowing the economy to resume more normal growth
  - Enhance Greece's ability to insure domestic bank deposits, so improving confidence in deposit bases

# Bank Leverage – Serving Public Purpose

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- Making Mosler bonds attractive for bank investment is critical for minimizing the cost of funds in Greece. Banks need both safety and a sufficient return on equity to attract investor capital.

- Bank profits would come from the spread between their cost of funds and the yield on the Mosler bonds.

- Assuming a 10% bank capital ratio, a 3% spread, for example, equals a euribor + 30% return on investment,

- Euribor + 3%, our estimate of where Mosler bonds could be issued, would represent very attractive funding costs for Greece

# Mosler Bonds = Safety

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Mosler bonds offer the banking system unprecedented safety, as banks would know that ultimately they will receive the euro promised by Greece. In the normal course of business, Mosler bonds would be issued and mature without incident, like all other government securities. However, should Greece not make a payment, the bank holding the securities, would be able to use them for payment of Greek taxes for itself or on behalf of clients paying their taxes. That is, the bank would be able to use delinquent bonds for tax payment, or, whenever a bank client pays taxes, the bank can retain the client's euro and use delinquent bonds to make the payments.

# Mosler Bonds: Safety = Low Yields

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With safety and low cost funding at the ECB's target rate for banking's cost of funds, euro member banks would compete for Greek Mosler bonds, driving down the yields Greece would have to pay until the yield reflects competitive returns on equity for bank investors. And that demand from the Greek and other euro banks should cause other investors globally to further recognize the safety of Mosler bonds and look to add them to their portfolios as well. All the while, this competition should serve to drive yields lower to the benefit of Greece.

# Mosler Bonds Strengthen the Banks

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Mosler Bonds strengthen the banks in two ways:

- The first is providing safe and secure investments that enhance bank profits which serve to attract equity investors.

- The second is that a government recognized as being able to independently fund itself at low interest rates restores confidence in that government's ability to protect the banking system's depositors. This provides the necessary context for the banking system's ability to independently fund itself.

# Would Mosler Bonds be Rated?



- With the unprecedented safety for investors offered by Mosler Bonds, Greece would have the option to petition the ECB to accept them as investment grade and as qualifying collateral for ECB funding without the assistance of the ratings agencies.
- This would be an important first step in divorcing euro member government policy from the influence of external ratings.
- The ECB could declare that approved issuance of Mosler Bonds have permanent eligibility as collateral without haircuts for ECB funding, and be classified as 0 risk-weight assets for member banks.

# What is the Legal Framework for Mosler Bonds?

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It is proposed that Mosler Bonds be issued under UK law to enhance investor safety and ensure the lowest possible rates for Greece.

- Broadly, EU Law does not appear to prohibit the issuance of the Mosler Bonds by Greece
- The decision to issue Mosler Bonds will need to be notified to the European Commission and to the European Council
- Based on analysis and legal advice to date, Mosler Bonds would not be considered to have preferred creditor status over existing Eurozone government bonds
- The ability to pay obligations owing to the State would not appear to require the payment (or the initial issuance) to be notified as potential State-aid under UK law

# Back-up Details: EU Law Reviewed

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In concluding that Mosler Bonds could lawfully be issued under existing UK law, the following legal sources were reviewed:

- Treaty on the Functioning of the European Union
- Stability and Growth Pact Framework and Excessive Deficit Procedure
- European Financial Stabilization Mechanism
- European Financial Stability Facility
- European Stability Mechanism (to be effective in 2013)

# Contacts

AVM, L.P.
*Providing Investor Solutions Worldwide*

Warren Mosler
Co-Founder
340-692-7710
Warren.mosler@gmail.com

Bill McCauley
CEO
561-544-4600
Bill.mccauley@avmltd.com

Francis Feeney
Principal
561-544-4567
Francis.feeney@avmltd.com

Scott Wyler
General Counsel
561-544-4434
Scott.wyler@avmltd.com

Dimitris Paraskevas
Managing Partner
Elias Paraskevas Attorneys
+30 210 36 10 333 ext. 102
Dparaskevas@paraskevaslaw.com

Christopher Cross
Partner
Latham & Watkins LLP
212-906-4834
Christopher.cross@lw.com

Basil Mavroleon
Principal
Anchor Asset Management
+44(207) 493-4033
basil@anchoram.com

www.avmlp.com