

Is the Greek haircut a snip too far for investors?

19 April 2012

Research from the University of Reading suggests that the recent bail-out for Greece could lead to decades of legal actions as disgruntled investors sue for compensation.

Angela Merkel and Nicolas Sarkozy may think the Greek problem is solved for now but Dr Ioannis Glinavos, from the School of Law, believes legal advisers will be grappling with the issues raised by the country's debt restructuring well into the 2020s.

The [European Union](#) and [International Monetary Fund](#) insisted on a debt swap as part of the latest [bailout](#) of 130bn Euros to Greece. This so-called 'haircut' saw some investors lose around 70% of their investment on Greek government bonds and those who were forced to accept the deal are demanding the full value of their investment.

Around 90% of creditors agreed to the debt swap - this was enough support to make it binding on all bondholders, whether they agreed or not.

In his new paper, *Investors vs. Greece, The Greek Haircut and Investor Arbitration Under BIT's*, Dr. Glinavos says the key issue is whether a reduction in the face value of a sovereign bond is an exercise of legitimate state powers, or a form of expropriation that gives rise to a claim for compensation under international law. Expropriation is the compulsory seizure or surrender of private property for the state's purposes, with little or no compensation to the owner.

The Greek situation has much in common with that of Argentina which defaulted in 2001. A significant portion of its bondholders went to court to win compensation. After a decade of wrangling, tribunals have ruled that investors can sue for compensation under investment treaties Argentina had signed.

Dr. Glinavos said: "The Argentine precedent

demonstrates that there are always some 'holdouts' during a restructuring -disgruntled investors who refuse to negotiate and demand the full value of their investment, even in desperate situations for the countries involved.

"The events in Greece since 2010 will occupy policy makers and market participants for the foreseeable future. They will also occupy courts and arbitral tribunals in multiple jurisdictions. In the same way that Argentina's default led to legal actions that are still to reach a conclusion, legal advisers will be grappling with the issues raised by Greece's workout well into the 2020s.

"The message for investors seeking to sue [Greece](#) for their losses is that they have a long and hard road ahead of them, but the very fact that a road exists is reason for optimism that a possibility of recouping some of their losses survives. Whether [investors](#) should pursue this lengthy legal battle is another question. When there is money to be made, someone somewhere will always consider options, regardless of the damage such action may cause to the country concerned and its prospects for recovery."

More information: Glinavos, Ioannis, *Investors vs. Greece: The Greek 'Haircut' and Investor Arbitration Under BIT's* (April 05, 2012). Available at SSRN: ssrn.com/abstract=2021137

Provided by University of Reading

APA citation: Is the Greek haircut a snip too far for investors? (2012, April 19) retrieved 27 September 2020 from <https://phys.org/news/2012-04-greek-haircut-snip-investors.html>

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