

Greece. Temporary Separation Tabled. Sovereign Capital Structures and Bankruptcy.

On June 26, had Greece agreed to these terms a deal would have been done. Instead Tsipras calls a referendum and seeks a No vote from his people. Before the vote, Tsipras goes back to the Eurogroup to accept the terms. Merkel says that they have to wait for the referendum since Tsipras would, in the spirit of democracy, have to respect the Greek people's decision. The people give Tsipras his No vote. He comes back to the table effectively accepting the creditor terms (in the June 26 proposal) confounding the No vote he had obtained at home.

This behaviour gives a clue to what it must have been to negotiate with Tsipras and Varoufakis in the preceding 6 months. Varoufakis probably resigned when he discovered Tsipras was going to accept the creditor terms after the No vote.

The behaviour also explains why Germany may be sceptical about the representations of the Greek government. If the Greeks agree to the bailout terms, there is no guarantee that they will comply with the very terms they have agreed. A logical strategy is to ask Greece to leave the Euro, provide Greece with some level of support, but require Greece earn its way back into the currency union.

On a slightly separate note, I think the Greek experience has shown that the world needs a better sovereign bankruptcy process and a better definition and design of sovereign capital structure. I would like to see the emergence of a sovereign covered bond market with claim on sovereign assets as well as a sovereign ABS market where default would result in the assignment of portions of tax receipts to creditors or

tranching ABS where cash flows are prioritized over tranches in a waterfall structure and additional cash flows are used to capitalize sinking funds under the negative control of creditors.