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March 29, 2013

BY ECF

Catherine O'Hagan Wolfe  
Clerk of the Court  
United States Court of Appeals for the Second Circuit  
Thurgood Marshall United States Courthouse  
40 Foley Square  
New York, NY 10007

Re: *NML Capital, Ltd. v. Republic of Argentina*, 12-105-cv(L)

Dear Ms. Wolfe:

By Order dated March 1, 2013, this Court asked the Republic of Argentina (the “Republic” or “Argentina”) to submit the terms of the “payment formula and schedule” to which it is prepared to commit in respect of the “ratable payment formula” set forth in the district court’s November 21, 2012 Orders (“March 1 Order”). Among the terms specified, the Court directed the Republic to indicate:

- (1) how and when it proposes to make current those debt obligations on the original bonds that have gone unpaid over the last 11 years;
- (2) the rate at which it proposes to repay debt obligations on the original bonds

going forward; and

- (3) what assurances, if any, it can provide that the official government action necessary to implement its proposal will be taken, and the timetable for such action.

Order at 2, *NML Capital, Ltd. v. Republic of Argentina*, 12-105-cv(L) (2d Cir. Mar. 1, 2013), Dkt. No. 903.

The Republic proposes to treat plaintiffs equitably and ratably with participants in the 2010 Exchange Offer by providing plaintiffs with (i) payments in the form of cash and securities that compensate for past due amounts that bring them current on their obligations, and (ii) debt service going forward.

The Republic is prepared to fulfill the terms of this Proposal promptly upon Order by the Court by submitting a bill to Congress that ensures its timely implementation.

### **RESPONSE**

The Republic proposes, following the terms of the 2010 Exchange Offer, to compensate plaintiffs with their choice of “Par” or “Discount” Option packages (or some combination of the two):

*Par Option:* Under the Par Option, plaintiffs would receive Par bonds (“Pars”) due in 2038 in a nominal face amount equal to their Eligible Claim.<sup>1</sup> The Pars pay interest at a rate that rises from 2.5% to 5.25% per annum over the life of the bonds. In addition, plaintiffs would receive an immediate cash payment constituting past due interest (“PDI”) on the Pars for

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<sup>1</sup> A plaintiff’s Eligible Claim is comprised of the face amount of their defaulted debt (*i.e.*, full principal) plus any accrued but unpaid interest up to but excluding December 31, 2001.

the period of December 31, 2003 to a current term as of the implementation of the Order (the same period for which the Republic compensated in its 2010 restructuring). Finally, plaintiffs would receive GDP Units in an amount equivalent to the notional amount of their Eligible Claim. The GDP Units will provide additional annual payments to plaintiffs going forward (until either 2035 or a specified payment cap (“Payment Cap”) is reached, whichever comes first) whenever Argentina’s Gross Domestic Product (“GDP”) growth exceeds certain predetermined levels (approximately 3% per year). The Par Option is designed for individual, retail plaintiff bondholders, such as the *Varela* plaintiffs. Pars are limited to \$50,000 per series of bonds.

*Discount Option:* Under the Discount Option, plaintiffs would receive Discount bonds (“Discounts”) due in 2033 that would be discounted relative to the Eligible Claim, but accrue interest at a considerably higher rate than the Pars – 8.28% per annum – and increase in principal amount over time. Part of the interest would be capitalized starting from the original issue date of December 31, 2003 until December 31, 2013 (as set forth in more detail in Annex A)<sup>2</sup> when the Discounts begin to pay interest in cash in full. In addition, plaintiffs would receive PDI in the form of bonds due in 2017 (“Global 17s”) that pay interest at a rate of 8.75% per annum. Finally, plaintiffs would also receive GDP Units in an amount equivalent to the notional amount of their Eligible Claim and any associated payments until either 2035 or the Payment Cap is reached, whichever comes first. Discounts are not limited, and plaintiffs can opt for the

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<sup>2</sup> This means that on the relevant payment date the portion of interest that is capitalized is not paid in cash, but is instead added to the principal amount of the Discounts, and future calculations of interest are based on this higher adjusted principal amount.

Discount Option for the full amount of their Eligible Claim.

Argentina’s Proposal accounts for past-due amounts to bring the debt current, provides for a fair return going forward, and also gives an upside in the form of annual payments if Argentina’s economy grows. The Proposal fulfills the Court’s dual objectives to satisfy the pari passu clause: non-discrimination in payment priority and equal treatment among bondholders. This Proposal is a voluntary option: plaintiffs can choose between being paid “equally” on the same terms as the exchange bondholders, or obtaining, and seeking to execute on, judgments for the full amount of their claim. (No plaintiff in any of these appeals has a judgment.) But plaintiffs cannot use the pari passu clause – a provision plaintiffs claim protects *against* creditor discrimination – to compel payment on terms *better* than those received by the vast majority of creditors who experienced precisely the same default as plaintiffs, and whose restructured debt obligations arose out of, and served as consideration for the surrender of, the very same defaulted debt held by plaintiffs.

**I. Application of Terms of Proposal**

**A. Details of Proposal**

The following chart sets out the details of the Par and Discount Options’ proposed consideration:

Eligible Claim	Discount Option	Par Option
Defaulted Securities	Discounts (including capitalized PDI)	Pars
+	+	+
Pre-Default PDI	Global 17s (for PDI)	Cash (for PDI)
-----	+	+
Eligible Claim	GDP Units	GDP Units

1. *Discounts and Pars*

Depending on the option selected, plaintiffs would receive new securities, Pars and/or Discounts, that would provide plaintiffs with bi-annual interest payments going forward. The Pars, which are due in 2038, would be issued to plaintiffs in a nominal face amount equal to their Eligible Claim, and pay interest at a rate that increases from 2.5% to 5.25% per annum over the life of the bonds (*see* Annex A for additional details). The Discounts, which are due in 2033, would be discounted relative to plaintiffs' Eligible Claim, but would bear interest at a higher rate than the Pars – 8.28% per annum. Prior to December 31, 2013, part of the interest accrued on the Discounts would be capitalized in the amount set forth in Annex A, and thus the principal amount of plaintiffs' Discounts would increase proportionately during that time.

2. *Past Due Interest in the Form of Cash and Global 17s*

There is a misunderstanding by some that Argentina is not prepared to compensate plaintiffs for past due interest to bring them current. In fact, Argentina recognized in its debt restructurings and would be prepared to recognize in this Proposal:

- Any accrued but unpaid interest up to but excluding December 31, 2001 (which together with the principal amount of plaintiffs' debt would be incorporated into plaintiffs' Eligible Claim); and
- Interest that would have accrued and been payable on the Pars or Discounts from December 31, 2003 to approximately the date of issue to plaintiffs.<sup>3</sup> Participants in the Par Option would receive this interest up front in a single cash payment, while participants in the Discount Option would receive it in the form of Global 17s (*see* Annex A for additional details regarding the Global 17s).

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<sup>3</sup> The Republic did not pay any interest to the 2005 or 2010 Exchange Bondholders for 2002 or 2003 when the Republic was in the depths of its unprecedented and historic financial and economic crisis.

3. *GDP Units*

Argentina is proposing to provide GDP Units that expire either in 2035 or when the Payment Cap<sup>4</sup> is reached, whichever comes first.

The GDP Units were offered to bondholders in 2005 and 2010 as a way to compensate them for providing debt forgiveness. They are derivative instruments, not “coupons” or debt payment as such, that will provide value to plaintiffs going forward. The GDP Units were designed as part of a complex restructuring package that aimed to achieve debt sustainability. When Argentina planned its debt restructuring offer after its historic default, it assessed, consistent with the practice followed in other internationally-supported sovereign debt restructurings, its debt repayment capacity. This assessment, together with consultation with bondholders, led to the restructuring offer and to the issuance of the GDP Units.

The GDP Units in effect compensate bondholders that gave Argentina debt forgiveness by entitling them to payments in years in which the country’s economic growth exceeds certain defined levels (here, approximately 3%), but not in years when economic growth does not meet the required threshold. This permits those bondholders to share in, along with the Argentine people, the increased economic growth that their debt forgiveness made possible, and allows Argentina and its bondholders to achieve dual objectives: fair compensation to make up

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<sup>4</sup> Argentina makes payments on GDP Units in respect of any given reference year if: (i) Actual Real GDP exceeds Base Case GDP; and (ii) annual growth in Actual Real GDP exceeds the growth rate in Base Case GDP (by approximately 3% per year). Total payments on GDP Units are subject to a cap originally set at 0.48, measured per unit of currency of GDP Unit (for a detailed explanation of the calculation of payments on GDP Units see Annex A). The purpose of the cap is to ensure that Argentina does not make payments on the performing debt in excess of the amount originally loaned to Argentina.

for debt reduction and payment in a manner consistent with future high and low cycles in economic development. During cycles in which GDP growth is high, the GDP Units pay more; during low cycles, but where the threshold is met, the GDP Units pay less. In this way, debt service remains stable relative to GDP and, at the same time, if the Republic's estimates at the time it made its debt offer fall below actual economic growth, Argentina recompenses bondholders for the "haircut" that allowed the Republic's economy to rebound. Argentina's GDP Units have functioned precisely in the way they were intended, and are valued by the market.

Argentina's Proposal does not include payments made on the GDP Units prior to the Proposal's implementation because such payments would be inconsistent with the nature of the GDP Units, and could give rise to additional litigation and claims for equal treatment from exchange bondholders, who did not receive credits for prior GDP Unit payments. The GDP Units, as derivative instruments, function to reward bondholders that offer debt forgiveness and, critically, require additional payments *contemporaneously* with annual growth cycles so that payments are in line with Argentina's capacity to pay. GDP Unit payments cannot, therefore, be offered retroactively to plaintiffs, both because they did not participate in either of the Republic's Exchange Offers and because Argentina used the additional payment capacity for prior years of growth when it paid on such GDP Units. In addition, such payments could provoke exchange bondholders to claim that Argentina breached the "Rights Upon Future Offers" ("RUFO") clause to which Argentina agreed in both the 2005 and 2010 Exchange Offers (*see* Annex B for additional information on the RUFO clause). The RUFO clause allows exchange bondholders to avail themselves of any voluntary exchange offer by Argentina that is made on better terms than

the exchange bondholders received. Although Argentina does not interpret or concede that this Proposal triggers that clause, it cannot rule out that exchange bondholders might file claims to receive similar payments. This is an important consideration for the Republic.

**B. Fairness of Offer and Scenarios of Return**

This Proposal would provide plaintiffs with significant compensation, and – unlike the “100 cents on the dollar immediately” formula adopted by the court below – is consistent with the *pari passu* clause, longstanding principles of equity, and the Republic’s capacity to pay.

*First*, the Proposal will have the immediate effect of putting either cash or easily monetized debt instruments in the hands of plaintiffs. Plaintiffs selecting the Par Option will receive a one-time cash payment to compensate them for all past due interest on their Pars that would have accrued had the Pars been issued on December 31, 2003. Plaintiffs choosing the Discount Option will immediately receive past due interest on the Discounts – which accrue interest at a rate of 8.28% per annum – in the form of Global 17s and additional Discounts for the portion of accrued interest that was capitalized into the principal amount. In addition to this compensation, plaintiffs would also receive Pars and/or Discounts, and GDP Units.

The following chart, which shows sample market values of the Par and Discount Options as of October 25, 2012 and March 1, 2013, demonstrates that the terms of the Proposal provide plaintiffs with substantial compensation. The Republic highlights the October 25, 2012 market value because after that date the prices of the underlying debt instruments were negatively affected by the threat that the Injunctions pose to the Republic’s debt service. In the event these appeals are resolved in a manner consistent with this Proposal, Argentina believes



that the market value of the package would increase substantially.

**Sample Market Values Of The Par And Discount Options <sup>5</sup>**

<b>Discount Option (based on the total principal amount held by plaintiffs)</b>	<b>Par Option (based on \$10,000 principal amount of a <i>Varela</i> plaintiff bond – Global 17/11.375%)</b>
Discounts in a face amount of \$207 million	Pars in a face amount of \$10,474
GDP Units in a notional amount of \$449 million	GDP Units in a notional amount of \$10,474
Global 17s in face amount of \$78 million	Cash payment of \$1,648
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Value as of Mar. 1, 2013: \$210 million	Value as of March 1, 2013: \$5,929
Value as of Oct. 25, 2012: \$308 million	Value as of Oct. 25, 2012: \$7,147

The resulting return to plaintiffs would be substantial. For example, NML, which paid an estimated \$48.7 million, primarily between June and December 2008, for its beneficial interest in the bonds at issue in these appeals,<sup>6</sup> would obtain the following return assuming

<sup>5</sup> Market values were calculated using the market value on the indicated dates of each of the debt instruments comprising the Par and Discount Options (Pars, Discounts, Global 17s and GDP Units), as published by Bloomberg Fixed Income Trading Composite, an index of fixed income debt prices published by Bloomberg.

<sup>6</sup> The estimated \$48.7 million purchase price is based on price data made publicly available by Bloomberg for purchase dates provided in a declaration submitted in the proceedings below by NML. *See* Declaration of Elliot Greenberg In Support Of Plaintiff’s Motion For Partial Summary Judgment And For Injunctive Relief Pursuant To The Equal Treatment Provision, *NML v. Republic of Argentina*, No. 08 Civ. 6978 (S.D.N.Y. Oct. 20, 2010), Dkt. No. 228. For purchases made by NML in November 2008, the average of the last price of October 2008 and the first price of December 2008 was used because no price data is available for that month. In this regard, it is important to emphasize that although Argentina’s default occurred approximately 11 years ago, the bonds at issue in this appeal were purchased by NML in 2008 and that NML has deliberately refrained from seeking judgments in connection with these bonds.

market prices as of March 1, 2013:

<b>Return to NML Under the Discount Option (amounts stated in millions of dollars)</b>	
Estimated Market Value of Discount Option to NML as of March 1, 2013	\$120.6
Estimated Total Price Paid by NML for Bonds	\$48.7
Estimated Total Profit (Market Value less Price Paid)	\$71.9
Estimated Aggregate Rate of Return	148%
Estimated Annual Rate of Return <sup>7</sup>	21.9%

These already significant returns are likely understated. Measured by market prices as of October 25, 2012, the estimated market value of the Discount Option to NML is \$186.82 million, and NML's aggregate and annual rates of return would be 284% and 34%, respectively.

It is equitable to consider plaintiffs' dates of purchase, because if the debt were performing, plaintiffs would have received debt service only from the point of purchase. Sophisticated market participants paid a depressed price for the bonds, but even that value was only paid, in NML's case, in 2008 and not in 2001. This Proposal gives plaintiffs credit as if they had held the bonds continuously. Original holders, who are principally retail, can opt for the Par Option.

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<sup>7</sup> All annual rates of return in this document were calculated on a compounded monthly basis assuming a holding period of 55 months, from the average time of NML's purchase to April 2013.

By contrast, the formula adopted by the district court would cause great harm to the exchange bondholders while giving plaintiffs a return that is exorbitant on its face, and even more so when one takes into account the estimated purchase price of the majority of plaintiffs' debt. *See* Declaration of Stephen Choi at 10, dated Nov. 26, 2012 (noting that the threat posed by the Injunctions caused "the price of the Exchange Bonds [to] drop[] precipitously"). For example, for NML, which purchased its beneficial interest in the bonds for \$48.7 million, the rate of return would be 80.2% per annum, and 1,380% in total.<sup>8</sup>

<b>Return to NML Under District Court's Payment Formula (amounts stated in millions of dollars)</b>	
Total Amount Claimed by NML (principal, interest and interest on interest)	\$720
Estimated Total Price Paid by NML for Bonds	\$48.7
Estimated Total Profit (Claim less Price Paid)	\$671.3
Estimated Aggregate Return	1,380%
Estimated Annual Rate of Return	80.2%

There are some retail holders, like the *Varela* plaintiffs, who unlike NML, claim to be long-term holders. These holders would be eligible to receive Pars under the Par Option, for which there is no haircut on the principal. The Republic does not have information regarding the purchase price and date of purchase for these plaintiffs.

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<sup>8</sup> NML is also reportedly seeking to gain from the threat that the Injunctions pose to Argentina's debt service. As the Court noted at oral argument, and as the EBG noted in its brief, NML (or its affiliates, which amount to the same thing) has reportedly purchased credit default swaps on the performing debt subject to the Injunctions. *See* Feb. 27, 2013 Hr'g Tr. at 63:8-64:9; EBG Br. at 25 n.15, dated Dec. 28, 2012.

*Second*, in contrast to the formula adopted below, the Republic's Proposal is consistent with the Republic's ability to pay. NML has repeatedly argued, incorrectly, that the Republic was given the opportunity to demonstrate its inability to pay plaintiffs full principal and all interest due. The Republic was never afforded that opportunity. *At the oral argument where the district court signed plaintiffs' proposed orders in the form presented*, the court made a passing reference to the Republic providing the court with a "balance sheet," Feb. 23, 2012 Hr'g Tr. at 32:12-18 (A-2321), and then stated that the Central Bank reserves should be used to pay plaintiffs (and presumably all other bondholders with pari passu claims). The Republic expressed its objection to that statement and was never given the opportunity to present evidence concerning such factors as Argentina's balance of payments, public finance commitments, the monetary system, and other macroeconomic factors necessary for any finding or conclusion as to the Republic's capacity to pay. This Court's October 26 Decision broke new ground both in creating an equitable remedy for the breach of a pari passu clause and in interpreting that clause under New York law, and thereby necessitated the presentation of evidence on the Republic's capacity to pay so that the Court could review the "merits of the remedy." October 26 Decision at 28 (SPE-295). That fact-finding was never allowed to happen in the district court.

The importance of such fact-finding on this issue is all the more vital because the \$1.44 billion<sup>9</sup> demanded by plaintiffs will no doubt be followed by further tagalong claims (indeed such claims are already being filed). This additional exposure can be measured in

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<sup>9</sup> The \$1.44 billion figure to which plaintiffs claim to be entitled under the district court's "ratable payment" formula consists of their debt's principal amount, plus missed interest payments, plus 9% statutory pre-judgment interest on that missed interest.

various ways, but it clearly amounts to many multiples of the amount at issue in these appeals. For example, there are over \$6 billion of claims and judgments in the district court alone (A-2787), and \$11.2 billion in defaulted untendered debt remains outstanding (A-2602) – a figure that balloons to over \$15 billion with the inclusion of penalty interest, *see* Memorandum of Law of the Republic of Argentina in Response to Plaintiffs’ Brief on Remand at 16, *NML Capital, Ltd. v. Republic of Argentina*, No. 08 Civ. 6978 (TPG), dated Nov. 16, 2012. When considered in conjunction with the \$28 billion of debt held by the exchange bondholders, the total claims against the Republic could amount to \$43 billion if the November 21 Orders are affirmed. The Republic believes that this Proposal is consistent with its capacity to pay, but if the Court believes additional evidence is necessary, it should order a remand so that evidence of this type can be presented.

*Third*, the Proposal’s terms are supported by the *pari passu* clause in the Republic’s bond documentation. That provision states that the relevant securities “shall at all times rank *pari passu* . . . among themselves” and that the “payment obligations . . . shall at all times rank at least equally” with other unsecured and unsubordinated External Indebtedness of the Republic. FAA ¶ 1(c) (A-157). The Court held that this language does not even require “ratable payment,” October 26 Decision at 1 (SPE-268), let alone payment in full. Under the October 26 Decision’s discrimination finding,<sup>10</sup> plaintiffs have a right under the *pari passu* clause to be treated commensurately with performing debt, not better. While plaintiffs did not agree to

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<sup>10</sup> The Republic respectfully disagrees with the October 26 Decision and reserves all rights. The Republic submits this Proposal in a good faith effort to comply with the Court’s ruling to the extent possible.

debt restructuring, their contractual right to full payment is not under the pari passu clause, but the payment and acceleration clauses.

*Fourth*, longstanding equitable principles command that where a remedy is not set forth in the contract being enforced, all debt holders be treated equally. Bankruptcy processes are equitable in nature and purpose; they do not privilege payments among similarly situated creditors, much less allow holdout creditors to seek to make vast returns on original debt instruments. The original bonds did not set forth a remedy other than acceleration; thus any equitable remedy fashioned by the district court must adhere to the principles of equitable treatment. Nations become insolvent.<sup>11</sup> Argentina endured a default in 2001, but it is not alone in having faced the necessity of restructuring its debt; many other countries in the world, including economies deemed central to world economic order, have faced similar circumstances. This is not a problem unique to Argentina, as much as plaintiffs would like to attribute fault to Argentina for the debt problems it faced, as if they were a unique function of its status, national identity or location. Sovereign debt defaults have happened and will continue to happen across the whole range of states and economies, including in the past, Russia, Mexico, Belize, Grenada, South Korea, Ecuador, Jamaica, Dominican Republic, Uruguay, Zambia, Slovenia, Croatia, Nicaragua, Peru, Liberia, and Iraq. Other states like Greece, Spain, Italy, and in today's newspapers, Cyprus, face similar challenges that threaten the stability of the European Union itself. In constructing an unprecedented equitable remedy for what the Court found to be a

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<sup>11</sup> When this happens, investors (particularly sophisticated ones like NML) understand that the principles that apply in the corporate bankruptcy context do not permit one creditor to recover proportionally more than other creditors.

breach of the pari passu clause in the wake of a nation's insolvency, the Court should not "enforce" that clause so as to provide for vastly better treatment for holdout creditors than for exchange bondholders when the Court interpreted the pari passu clause to require equal treatment.

## **II. Implementation**

Argentina states that, if the Court agrees with this Proposal, the Executive commits to take all steps necessary to implement the Proposal, including submitting to Congress a bill that gives the Executive the ability and powers necessary to implement it. Legislators from both chambers of Congress, and members of both the governing party and the opposition, have publicly stated that they are willing to collaborate with the Executive in bringing a definitive solution to Argentina's defaulted debt. The Executive therefore expects that the necessary legislation will be promptly enacted.

Respectfully submitted,

/s/ Jonathan Blackman

Jonathan I. Blackman

cc: Counsel of Record (via ECF)

## ANNEX A

### The New Securities

#### Discounts

**Securities Offered** ..... U.S. dollar-denominated Discount Bonds due December 31, 2033.

**Principal Payments**..... Argentina will repay the principal of the Discounts in twenty equal semi-annual payments on June 30 and December 31 of each year, commencing on June 30, 2024. The twenty equal semi-annual payments will include the capitalized amounts accrued prior to the first amortization date.

**Interest**..... The Discounts will bear interest, payable semi-annually in arrears (except as described below) and computed on the basis of a 360-day year of twelve 30-day months, accruing from and including December 31, 2012, to but excluding December 31, 2033, at an annual interest rate of 8.28%.

Part of the interest accrued prior to December 31, 2013, will be paid in cash and part will be capitalized, as indicated below:

<u>From and including</u>	<u>To but excluding</u>	<u>Cash</u>	<u>Capitalized</u>
December 31, 2012	December 31, 2013	5.77%	2.51%
December 31, 2013	December 31, 2033	8.28%	0.00%

This means that on the relevant payment date the portion of interest that is capitalized is not paid in cash but is instead added to the principal amount of the Discounts, and future calculations of interest are based on this adjusted principal amount.

**Governing Law** ..... New York law.

#### Pars

**Securities Offered** ..... U.S. dollar-denominated Par Bonds due December 31, 2038.

**Principal Payments**..... Argentina will repay the principal of the Pars in twenty equal semi-annual payments. Argentina will pay the first nineteen installments on March 31 and September 30 of each year, commencing on September 30, 2029, and will pay the last



installment on December 31, 2038.

**Interest**..... The Pars will bear interest, payable semi-annually in arrears, and computed on the basis of a 360-day year of twelve 30-day months, accruing from and including March 31, 2013 to but excluding December 31, 2038, at the following annual rates:

<u>From and including</u>	<u>To but excluding</u>	<u>Rate</u>
March 31, 2013	March 31, 2019	2.50%
March 31, 2019	March 31, 2029	3.75%
March 31, 2029	December 31, 2038	5.25%

Interest payment dates for the Pars will be March 31 and September 30 of each year, and December 31, 2038.

**Governing Law** ..... New York law.

### **Global 17s**

**Securities Offered** ..... U.S. dollar-denominated 8.75% Global Bonds due in 2017.

**Principal Repayment**.. Argentina will redeem the principal amount of the Global 17s at par in 2017.

**Interest**..... 8.75% per annum, payable semi-annually in arrears, and computed on the basis of a 360-day year of twelve 30-day months. Interest on the Global 17s will be payable in cash on each interest payment date.

**Governing Law** ..... New York law.

### **GDP Units**

**Securities Offered** ..... GDP Units expiring no later than December 15, 2035.

**Notional Amount** ..... Each GDP Unit will have a notional amount equal to the corresponding Eligible Claim.

There are no principal payments in respect of the GDP Units. Holders will not receive any payments during the life or upon the expiration of their GDP Units other than as described below.

**Payments** ..... Any payments on the GDP Units are contingent upon the performance of Argentina's GDP and subject to the conditions

described below. Payments made on the GDP Units will be based on the notional amount of GDP Units held.

**Payment Currency** ..... U.S. dollars.

**Calculation Date** ..... The calculation date for the GDP Units will be on November 1 of each year following the relevant reference year.

**Payment Date** ..... Subject to the conditions specified below, Argentina will make payments on the GDP Units on December 15 of each year following the relevant reference year.

**Reference Year** ..... The reference year for the GDP Units will be a calendar year, commencing in 2013 and ending in 2034.

**Payment Conditions** ... Argentina will make a payment on GDP Units in respect of any given reference year only if the following three conditions are met:

- for the reference year, Actual Real GDP (as defined below) exceeds Base Case GDP (as defined below);
- for the reference year, annual growth in Actual Real GDP exceeds the growth rate in Base Case GDP for such year (as a point of reference, the Base Case GDP for 2008 is Ps. 317,520.47 million, measured in 1993 pesos); and
- total payments made on a GDP Unit do not exceed the payment cap (described below) for that GDP Unit.

Annual growth of Actual Real GDP for any reference year will be calculated by dividing Actual Real GDP for that reference year by the Actual Real GDP for the year preceding that reference year, minus one. For purposes of this calculation, the Actual Real GDP for the relevant reference year and the preceding year will each be measured using the same year of base prices, with Actual Real GDP for the year preceding the reference year adjusted, if necessary, to reflect any changes in the year of base prices implemented during such reference year.

**Payment Cap** ..... The total amount to be paid during the life of the GDP Units, per unit of GDP Unit, was originally limited to 0.48, measured per unit of currency (the “payment cap for GDP Units”). As of December 15, 2012, Argentina had paid the equivalent of 18.04% of the notional amount of the GDP Units, which reflects the record growth of Argentina’s GDP from 2004 to 2012 of approximately 68% in

the aggregate. Therefore, moving forward, the effective cap on any GDP Units issued in connection to this Proposal is approximately 30% of the notional amount. For example, for GDP Units in a notional amount equal to U.S.\$1 million, the payment cap for the GDP Units moving forward would equal U.S.\$299,600. Because GDP for 2012 greatly exceeded Base Case GDP for that year (by more than 30%), and in eight of the last ten years Argentina’s annual GDP growth has exceeded the 3% threshold, it is foreseeable that Argentina will experience similar growth in numerous years prior to the GDP Units’ expiration in 2035. As a result, total payments to be made on the GDP Units going forward will likely reach the effective cap of approximately 30% of the notional amount.

**Base Case GDP** ..... The base case gross domestic product (“Base Case GDP”) for each reference year, commencing with the 2013 reference year, is set forth in the following chart:

Reference Year	Base Case GDP (1993 pesos in millions)	Base Case Growth Rate (%)	Reference Year	Base Case GDP (1993 pesos in millions)	Base Case Growth Rate (%)
2013	372,753.73	3.22%	2026	547,539.69	3.00%
2014	384,033.32	3.03%	2027	563,965.88	3.00%
2015	395,554.32	3.00%	2028	580,884.85	3.00%
2016	407,420.95	3.00%	2029	598,311.40	3.00%
2017	419,643.58	3.00%	2030	616,260.74	3.00%
2018	432,232.88	3.00%	2031	634,748.56	3.00%
2019	445,199.87	3.00%	2032	653,791.02	3.00%
2020	458,555.87	3.00%	2033	673,404.75	3.00%
2021	472,312.54	3.00%	2034	693,606.89	3.00%
2022	486,481.92	3.00%			
2023	501,076.38	3.00%			
2024	516,108.67	3.00%			
2025	531,591.93	3.00%			

The Base Case GDP will be adjusted in accordance with any changes to the year of base prices (currently 1993).

**Actual Real GDP**..... The actual real gross domestic product (“Actual Real GDP”) is the gross domestic product of Argentina in constant pesos for each calendar year as published by the *Instituto Nacional de Estadística y Censos* (“INDEC”).

Actual Real GDP is currently calculated by INDEC using the year 1993 as the year of base prices. If in any year, the year of base

prices for calculating Actual Real GDP is changed by INDEC, the Base Case GDP will be adjusted accordingly. For example, if the year of base prices is changed to 2008 and Actual Real GDP for 2010 with 1993 prices is X, and with 2008 prices is Y, then the Base Case GDP for 2010 = Base Case GDP as per the chart above *multiplied* by a fraction, the numerator of which is Y and the denominator of which is X.

**Actual Nominal GDP**..... The actual nominal gross domestic product (“Actual Nominal GDP”) is the gross domestic product of Argentina in current pesos for each calendar year as published by the INDEC.

**Excess GDP** ..... The excess gross domestic product for any reference year (“Excess GDP”) is the amount, if any, by which Actual Real GDP (converted to nominal pesos, as described below) exceeds the Base Case GDP (converted to nominal pesos, as described below). Excess GDP will be expressed in billions.

For purposes of determining Excess GDP for any reference year, each of the Actual Real GDP and Base Case GDP for that reference year will be converted into nominal pesos by multiplying it by a fraction, the numerator of which is the GDP Deflator for that reference year and the denominator of which is the GDP Deflator for the year of base prices used to calculate Actual Real GDP and Base Case GDP for that reference year. As noted above, 1993 is currently the year of base prices, and the GDP Deflator for that year is one.

**GDP Deflator** ..... The GDP deflator for any given year (“GDP Deflator”) is the quotient that results from dividing the Actual Nominal GDP for such year, by the Actual Real GDP for the same year, in each case as published by INDEC.

**Payment Amount**..... On each payment date, holders of GDP Units will be entitled to receive payments in an amount equal to the Available Excess GDP for the corresponding reference year, multiplied by the aggregate notional amount of GDP Units they hold. “Available Excess GDP” is an amount per unit of currency of notional amount of GDP Units, determined in accordance with the following formula:

Available Excess GDP = (0.05 x Excess GDP) x unit of currency coefficient where:

- “Excess GDP” is expressed in billions of nominal pesos, and

- the “unit of currency coefficient” is as set forth in the following table:

<b>Currency of GDP Unit</b>	<b>Unit of Currency Coefficient</b>
U.S. dollars .....	$1/81.8 = 0.012225$

The unit of currency coefficient represents the proportion that one GDP Unit with a notional amount of one unit of currency bears to the aggregate eligible amount of all eligible securities outstanding as of January 10, 2005, the date on which Argentina commenced its 2005 exchange offer (approximately U.S.\$81.8 billion), calculated using currency exchange rates in effect on December 31, 2003.

All calculations of payments on the GDP Units will be performed by the Ministry of Economy and Public Finance of Argentina.

**Governing Law** ..... New York law.

**Common Terms of the New Securities**

*The following terms will apply to all New Securities, except as otherwise noted:*

**Claim to Full Principal** ..... The Discounts, Pars and Global 17s will represent a claim to their full principal amount at maturity (plus accrued but unpaid interest) or upon earlier acceleration in accordance with the terms thereof. There is no principal payable in respect of the GDP Units.

**Redemption** ..... The New Securities will not be redeemable before maturity (although the Discounts and Pars provide for amortization payments before final maturity and the GDP Units may expire early as described below) and will not be entitled to the benefit of any sinking fund.

**Denomination** ..... U.S. dollars.

## ANNEX B

### *Rights Upon Future Offers – 2005 and 2010 Exchange Offer*

The Discounts and the Pars (and the Quasi-Pars, in the case of the 2005 Exchange Offer) contained a covenant that if Argentina, during the period from the expiration of the 2005 or 2010 Exchange Offer, as applicable, until December 31, 2014, and except as provided below, voluntarily makes an offer to purchase or exchange or solicits consents to amend any defaulted securities not tendered or accepted pursuant to the 2005 or 2010 Exchange Offer, as applicable (other than an offer on terms substantially the same as, or less favorable than, the 2005 or 2010 Exchange Offer, as applicable), Argentina will take all steps necessary, including making any required filings, so that each holder of Discounts or Pars (or Quasi-Pars, in the case of the 2005 Exchange Offer) will have the right, for a period of at least 30 calendar days following the announcement of such offer, to exchange any of such holder's Discounts or Pars (or Quasi-Pars, in the case of the 2005 Exchange Offer) for (as applicable):

- the consideration in cash or in kind received in connection with such offer to purchase or exchange offer, as the case may be; or
- securities having terms substantially the same as those resulting from such amendment process;

in each case in accordance with the terms and conditions of such offer to purchase, exchange offer or amendment process.