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To: Holders of Ecuador's Sovereign Bonds Maturing in 2012 and 2030

Re: Fighting back - a concrete action plan
Bond holder conference call - Friday, May 8, at 12:00 noon New York time

Ecuador has launched a full-on attack on the international sovereign credit system, and Ecuador's bond holders this week have a powerful opportunity and incentive to prevent that attack from succeeding. Argentina-style, Ecuador has been working recently to evade its contractual obligations to creditors by threatening to violate the rule of law. Ecuador's behavior, actual and suspected, includes actions with questionable legal basis, which have caused a steep decline in the market price of Ecuador's bonds.

Among these steps is last year's Governmental audit commission report which identified much of the Republic's global bond debt as illegitimate for reasons that have not been well-explained. The commission's rationale seems to boil down to "the bonds are expensive, and they were designed and issued by a previous administration, whose policies the current administration no longer supports". The report's vague attempt to describe alleged legal infirmities in the bonds' documentation borders on the frivolous. In addition, the Government has made numerous statements in recent months that it planned to default on the bonds, and it has subsequently indeed defaulted. Each of these events has predictably led to bond price decline. The market widely suspects that Ecuador has purchased large quantities of its own bonds in the wake of each of these self-created events, leading to questions of market manipulation.

Ecuador's latest move is to come to market with a tender for its bonds at the floor price of a 70% discount to their face value. To coerce bond holders to sell at low prices, Ecuador has made plain threats that it will violate the rule of law if bondholders do not sell. One shocking but open threat in the tender documents is that Ecuador plans to make no further payments, ever, to holders of bonds who do not tender. A second open threat in the tender documents is that Ecuador may well coordinate with the tender's purchasing nominee to make harmful amendments to the untendered bonds by subverting the indentures' majority voting clauses.

The obvious message from the Government is "sell to me now cheaply because I plan to breach my obligations later, which will depress the value of the bonds even further". Apparently concerned about the Republic's reputation, Ecuador's Minister of Finance stated on this week's conference call with bond holders that the tender is not coercive. In light of the tender's documentation, however, it is very difficult to see the tender as anything but coercive.

It is our impression that market participants - official regional lenders and bond holders alike - are not yet fully focused on the dangers that Ecuador's behavior holds for the system of international sovereign finance. First, the Inter-American Development Bank (IADB), in which the United States Government is a material shareholder, and the Fondo Latinoamericano de Reservas (FLAR) are both known to be working toward providing material further financing to Ecuador just at this time. Second, bond holders appear to be

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debating whether succumbing to Ecuador's threats, and tendering as Ecuador has proposed, is the best course of action.

We contend that any further financial cooperation with Ecuador at this time will only legitimize the course that Ecuador has chosen. And that course, which echoes in material ways the course that Argentina chose earlier this decade, will have grave implications for sovereign finance, as Argentina's tactics did for creditors of sovereigns and more profoundly, for ordinary citizens. If Ecuador "gets away with it", the message for other countries will be "you can coerce your creditors and violate the rule of law too, and do not worry, there will still be further financing awaiting you at the expense of taxpayers and working people's pension funds everywhere".

At this time, Ecuador's bond holders have the power to demonstrate that Ecuador's chosen path is dangerous, wrong, and can be stopped. Bond holders should act now to organize a broad and coordinated opposition to Ecuador's proposal, and they should agree not to succumb to Ecuador's threats. Bond holders should instead offer to engage Ecuador in a good faith discussion about a proper process and outcome so as to minimize the pain for the good faith working people who invest in Ecuador or who live there.


Concrete next steps for bond holders include the following:

- agree with each other not to tender, and consider locking up on that basis
- condition lock-up on a minimum amount of bonds participating
- publicly announce the lock-up
- demand a meeting with the authorities and an international best practices process
- communicate directly with the regional lenders who are poised to fund
- investigate the possibility of market manipulation
- evaluate all remedial options
- establish an efficient war-chest, to be closely managed by a steering group

We welcome the opportunity to discuss these subjects with all interested bond holders. To do so, we are holding a conference call for bond holders only on Friday, May 8, 2009 at 12:00 noon New York time. Dial-in details are as follows:

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Sincerely,



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