

**TRADE AND AGRICULTURE DIRECTORATE
PARTICIPANTS TO THE ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT
CREDITS****Information note for guidance on premium rules for officially supported export
credits in market benchmark countries**

This document provides technical assistance and guidelines to determine the minimum premium rate for market benchmark transaction according to the Arrangement on Officially Supported Export Credits. This document replaces the previous public note [TAD/PG(2017)7/FINAL] which was issued in July 2017. The main update in this revised note concerns the Premium Discount Rate (or Commercial Interest Reference base Rates or “CIRR” base rates) to be applied in the premium calculator – this change is the result of the CIRR reform which was implemented in July 2023 (i.e. six years after the agreement on premium rules for market benchmark countries).

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INFORMATION NOTE FOR GUIDANCE ON PREMIUM RULES FOR OFFICIALLY SUPPORTED EXPORT CREDITS IN MARKET BENCHMARK COUNTRIES

1. Introduction

1.1. Purpose

1. After more than five years of negotiations, the Participants to the Arrangement on Officially Supported Export Credits (the Participants) reached an agreement in November 2016 on a new set of rules governing the level of credit risk premium that must be charged for official export credits to countries where private market financing is generally available. Specifically, “market benchmark transactions” (i.e. transactions involving ultimate obligors or guarantors in category 0 countries, high income OECD countries and high income Euro Area countries) are now, like all other transactions covered by the Arrangement on Officially Supported Export Credits (the Arrangement), subject to a concrete minimum credit risk premium regime.
2. This note has been prepared to provide guidance and explanation on how to obtain the minimum market benchmark premium rate.

1.2. Overview of the market benchmark premium rate rules

3. The new premium rules take the form of (1) a premium rate floor which is set by an index derived from private market pricing of risk and (2) agreed methodologies for using the risk pricing of specific, relevant, private market debt instruments to determine the credit risk premium to be charged for an official export credit transaction. The index developed by the Participants for this purpose is known as the “Through the Cycle Market Benchmarking Model Blended with Actuarial Premium (or TCMB-BAP)” (section 2.3) which provides a minimum premium rate for any combination of risk and tenor. The TCMB-BAP is computed using a weighted average between, on one hand, the credit risk premium derived from senior unsecured bonds according to their credit rating and tenor (Bond Premium) and, on the other hand, an Actuarial Premium based on past corporate default rates. The data used to compute the Bond Premium comes from the corporate bond market in the United States by credit rating and maturity.
4. Although the premium rates charged for market benchmark transactions normally cannot be lower than the rates generated by the TCMB-BAP, under certain circumstances, the risk pricing obtained from a name-specific (including related entity) credit default swap (CDS) or secondary market bond (see section 2.4) can be used to justify charging a premium rate which is lower than the corresponding TCMB-BAP rate. In addition, when the TCMB-BAP rate itself is used as the premium rate to be charged, the application of certain risk-reducing credit enhancement techniques allow for the TCMB-BAP rate to be adjusted downwards according to agreed discounts (never exceeding 25%). In any case, Participants may never charge a premium rate which is lower than the corresponding Minimum Actuarial Premium (MAP) rate (see sections 2.3 and 3.2).
5. Finally, the agreement allows for an official export credit that is provided as part of a syndicated loan package (structured either as an asset-backed or project finance transaction) to have a premium rate that matches the pricing of the commercial participants in the

syndication. For direct loans, the all-in (i.e. interest rate and credit risk premium) cost may be no lower than the all-in cost of the commercial tranches of the syndication. In the case of insurance or guarantee support, the credit risk premium may be no lower than the imputed credit risk premium charged by the commercial participants in the syndication, with the additional provision that the rate may never be lower than the Minimum Actuarial Premium rate.

6. These rules are detailed in Article 21 c) 1) of the Arrangement.

2. Premium rules for standard support to market benchmark transactions

2.1. Premium rates may not undercut the private market

7. Prior to the agreement on minimum premium rates for market benchmark transactions in November 2016, the only rule that existed for the premium rates of such transactions was that they could not undercut the private market. In practice, a number of appropriate market benchmarks were listed in the Arrangement for Participants to base their premium rates on.

8. The reason for this rule was due to the fundamental principles behind officially supported export credit disciplines and the specificities of market benchmark countries. Indeed, the goal of the disciplines governing official export credits is to eliminate or minimise market distortions in officially supported export credits while creating a level playing field among governments and exporters. Since market benchmark countries are assumed to have private market financing schemes available in order to support export transactions, this rule was meant to avoid any crowding out of these private market alternatives because of state support.

9. This rule remains the core principle of the November 2016 agreement on market benchmark transactions. Therefore, Participants must price their credit risk premium for transactions in high income countries in accordance with what is priced in the private market. Participants may choose among five different market benchmarks (listed in Annex VII of the Arrangement) to determine the premium rate: uncovered tranches of export credits, name specific (or related entity) credit default swaps or corporate bonds, loan benchmarks and market benchmark curves.

2.2. The authorised market benchmarks for computing a market benchmark premium

- **Uncovered tranche of export credits**

10. The premium rate can be based on the price indicated by private banks/institutions with respect to the uncovered tranche of an export credit. Pricing on un-covered tranches should only be used if they are provided on purely commercial terms (e.g. this would exclude International Financing Institution (IFI), Multilateral Development Bank (MDB), and Development Finance Institution (DFI) funded portions), and if the tranche has an appropriate size with the same commercial terms and conditions as the ECA tranche.

- **Name-specific (or related entity) credit default swaps (CDS) or corporate bonds**

11. Name-Specific references are limited to benchmark instruments that belong to the exact identical obligor/guarantor (credit risk entity) as in the ECA transaction. Related Entity references are benchmark instruments of a related obligor/guarantor (credit risk entity).

12. In cases where the obligor/guarantor has no quoted bonds or CDSs, and there exists within the obligor/guarantor's organisational structure a parent, subsidiary or sister company with Name-Specific Bonds or CDSs outstanding in the market, then those Name-Specific

Bonds or CDSs may be used as if they had been issued by the obligor/guarantor entity itself if the parent, subsidiary, or sister company has the same issuer Credit Rating Agency (CRA) rating as the obligor/guarantor; or if a list of criteria is met (see box 1 below).

Box 1. List of criteria necessary to use name specific bonds or CDS of a parent, subsidiary or sister company (related entity)

1. The Participant's internal rating of the obligor/guarantor corresponds with the CRA rating of the related entity
2. The obligor/guarantor is the main operating company of the parent/holding, being a key and integral part of the group's business.
3. The CRA rating is based on the core business of the group
4. The obligor/guarantor provides a significant part of the group's earnings by supplying either some of the group's core products/services to core clients or it owns and operates a major portion of the parent's assets.
5. The sale of the obligor/guarantor from the group is very hard to conceive, and the disposal would significantly alter the overall shape of the group.
6. A default of the obligor/guarantor would constitute a huge reputational risk to the group, damage its franchise and could threaten its viability.
7. A high level of management and operational integration exists where capital and funding is typically provided by the parent company or a finance subsidiary via intercompany loans and where parent support is unquestioned.

- **Loan benchmarks**

13. This approach compares the total financing costs for an ECA transaction with the financing costs of either a similar commercial loan (so-called primary loan benchmark) or the current yield on the loan expected by the financial institution purchasing the loan from another financial institution (secondary loan benchmark). If loan benchmarks are used, those for the obligor should be used in the first instance; if not available, those for similar borrowers and transactions should be used.

14. As a direct lender, the ECA does not only cover the overall credit risk of the obligor but also provides funding. It is therefore necessary to ensure that the overall financing costs: the funding, the relevant fees and the margin for administration costs and other elements ("all-in" costs) of the ECA loan are consistent with what the obligor can obtain from the commercial market.

15. From a pure cover perspective, the overall financing costs of the loan to be covered also need to be consistent with the overall financing costs of commercial loans that the obligor can obtain in the market. However, a pure cover ECA does not provide the funding of the credit. The ECA only takes (part of) the credit risk of the obligor according to the covered percentage of the loan, and therefore the ECA seeks a benchmark for the market pricing of the credit risk. The problem for the pure cover provider is how to determine the credit risk element of the total financing costs of the commercial loan. In general, the bank's individual refinancing costs (funding costs) and administration costs need to be estimated. If this is the case, ECAs may use the individual five-year CDS spread of the commercial lender as an estimate of the marginal long term funding costs of the private institution and 15 bps as an estimate for administration costs.

- **Benchmark market curves**

16. Benchmark market curves reflect the credit risk of a whole sector or class of buyers. In general the quality of the information inherent to these markets depends on their liquidity. In any case, only market instruments that provide the closest match in terms of ECA contract characteristics such as date, credit rating, term of maturity and currency denomination should be used.

2.3. Premium rates subject to a floor: The TCMB-BAP

17. In addition to limiting the number of market benchmarks that could be used to price the market benchmark premium, experts agreed on the introduction of a floor for market benchmark premium rates: the Through the Cycle Market Benchmark Blended with Actuarial Premium (TCMB-BAP). The TCMB-BAP ensures that ECAs do not undercut the private market while providing them with common, transparent and easily accessible minimum rates when they provide support to market benchmark transactions.

18. The premium rates charged by an ECA for all standard export credit support¹ to market benchmark transactions must be at least as high as the rates derived from the TCMB-BAP model. ECAs may choose to apply the rates derived from the TCMB-BAP, they do not need to check that alternative market benchmarks (listed in section 2.2) are available.

- **The TCMB-BAP model**

19. The TCMB-BAP is a market benchmark model that falls under the heading of *Benchmark Market Curves* in the list of valid benchmarks. It is computed by calculating a weighted average between on one hand, the *Bond Premium*: the premium based on senior unsecured bonds of a credit rating (by a CRA) and, on the other hand, an *Actuarial Premium*: a premium based on past corporate default rates. The *Bond Premium* is obtained by calculating the spread between corporate bond market yields in the United States (using essentially Bloomberg© BVAL Sector Curve for USD US Non-Financials) updated annually and dollar swap rates. The *Actuarial Premium* is calculated by multiplying: the Average Default Rates: obtained by averaging the data from the three main CRAs: Moody's, S&P and Fitch, by the loss given default rate and by a Loading Factor (which reflects additional cost factors). A statutory minimum limit to the Actuarial Premium is set to 15 bps.

Box 2. The formulae for the TCMB-BAP model

1. TCMB-BAP = Max (65% Bond Premium + 35% Actuarial Premium; Minimum Actuarial Premium Rate)
2. Actuarial Premium = ADR × Loss Given Default rate × (1+ Loading Factor). Where ADR is the annualised average default rate, the Loss Given Default rate is 50% and the Loading Factor is 20%
3.
$$ADR = \frac{DR_{S\&P} + DR_{Moody's} + DR_{Fitch}}{3} \times \frac{1}{Tenor}$$
. Where DR_x is the Default Rate of a given CRA for each rating notch. The ADR is intra- and extrapolated using the five-year ADR.
4. Minimum Actuarial Premium Rate = Max (Actuarial Premium; 15 bps).

¹ Unless the exceptions listed in section 2.3 apply or if the support is provided as part of a syndicated loan package structured as either an asset-backed or project finance transaction.

- **Backstop mechanism**

20. In order to avoid excessive volatility in the minimum premium rates derived from the TCMB-BAP, the agreement also introduced a backstop mechanism that would be triggered automatically in the event where the level of the premium using the TCMB-BAP diverged significantly from the historic bond spread averages.

21. More specifically, if the premium calculated for the five-year curve for B rated entities by using the TCMB-BAP and therefore bond spread averages over 12 months are above the level of the bond spread averages since 1993 (TCMB-W) multiplied by a factor of 1.35 then the backstop mechanism is triggered. In this case, the premium values (obtained with TCMB-BAP) that are above 1.35 X TCMB-W are replaced by the value of 1.35 X TCMB-W, the others remain unchanged.

22. In the event where the backstop mechanism is triggered, the premium is therefore floored by either the TCMB-BAP or 1.35 X TCMB-W (as detailed in §21). In addition, the premium is also floored to half of the current TCMB-BAP and cannot be lower than the rate applied in the previous year.

- **TCMB-BAP data availability and manipulation**

23. The TCMB-BAP calculation tool is publicly available on the OECD Export Credit website in order to allow anyone to have access to the market benchmark minimum premium rates.

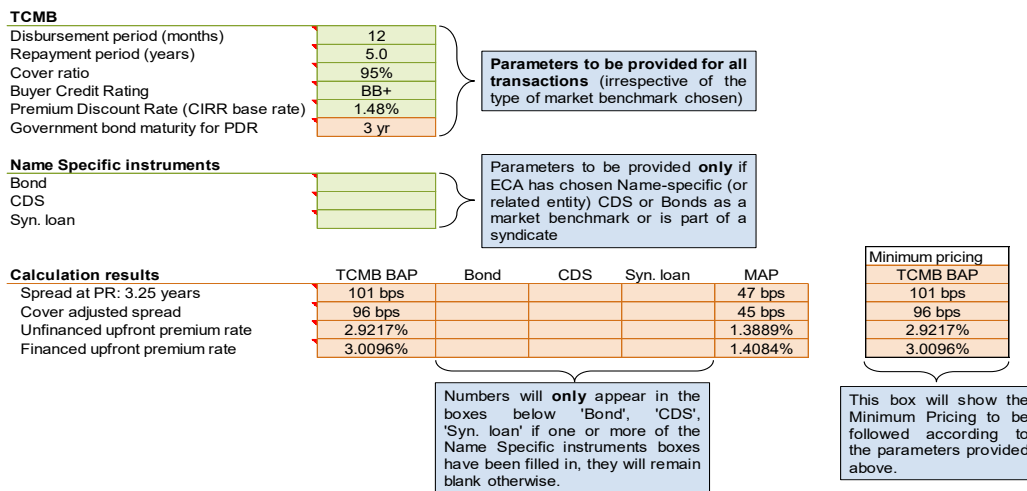
24. The calculator provides a bond spread on a per annum basis and conversion to upfront rates. It will provide rates if the premium is being financed through the export credit or not.

25. The calculator is updated yearly every January in order to incorporate the newly observed data pertaining to the previous 12 months. The raw data used to compute the calculator is not accessible to the public due to proprietary restrictions concerning the redistribution of the data.

Box 3. User inputs for TCMB(BAP) calculator

- Disbursement period.** Users should provide the period between the zero point and the starting point of credit in months (for a definition of the starting point of credit, users should refer to the Arrangement, Annex XIII).
- Repayment period.** Users should provide the repayment period in years rounded to the closest semi-annual (the model can handle values from 6 months to 30 years). For non-standard profiles, users should use the following formula: length of the repayment period = [Weighted Average Life (WAL) of the repayment period - 0.25]/0.5 in accordance with OECD Arrangement Article 21 g].
- Cover ratio.** Users should enter the maximum political and commercial cover ratio.
- Buyer credit rating:** Users should enter their assessment of the market's view of the obligor/guarantor credit rating in accordance with the Arrangement.
- Premium Discount Rate (CIRR base rate).** Users should enter the Convention A Premium Discount Rate or PDR (which is equal to the CIRR base rate) corresponding to the transaction. The PDRs are available on the OECD public website on the [Financing terms and conditions](#) page. The relevant PDR/CIRR base rate is obtained by calculating the weighted average life of the repayment period of the transaction (which simplified to 0.5* repayment period + 0.25 for equal semiannual repayment structures) rounded to the nearest year. This calculation yields the maturity of the government bonds that should be used to compute the base rate and can be found on the website. The currency should be the currency of the transaction. For example in the case of a transaction with a disbursement period of 9 months, a repayment period of 10 years and an equal semi-annual repayment period, the maturity of the bonds that will be used is: 5 years (10/2 + 0.25 = 5.25, rounded to the nearest year is 5). In the PDR table, the rates that should be used is the one corresponding to a 5-year maturity in the Convention A column and in the appropriate currency. To simplify matters for users, in the case of equal semi-annual repayment structures, the calculator will automatically compute the government bond maturity for the PDR under "Government bond maturity for PDR". This box should not be used for transactions with other repayment structures.
- Calculation Results:** One of the four premium prices indicated in the Minimum pricing box will apply in accordance with the relevant form of official support.

Figure 1. TCMB-BAP calculator



Note: In this case, there is no Name Specific instrument available; the result from TCMB-BAP would apply in accordance with the relevant form of official support.

2.4. Premium rates may pierce the floor under certain conditions

26. The Agreement provides two specific circumstances when the premium rate (of a standard officially supported export credit) can go below the rate of the premium derived from the TCMB-BAP: (i) the rate is priced using either Name-specific (or related entities) corporate bonds or credit default swaps or (ii) buyer risk credit enhancements are applied.

2.4.1. Using Name-specific (or related entities) corporate bonds or CDS

27. Name specific (or related entities) corporate bonds and CDS are two of the authorised market benchmark references listed in Annex VII of the Arrangement. The specificity of these two market benchmarks is that if they are used to derive the premium rate of a transaction, this rate is valid even if it is below the TCMB-BAP premium rate corresponding to the transaction. However, the rate derived from either of these two benchmarks may not go below the corresponding Minimum Actuarial Premium Rate [in accordance with Article 21 c) 2) of the Arrangement].

- **Steps to follow when deriving the premium from a Name-specific (or related entities) corporate bond**

28. **Step 1: Select an appropriate reference entity.** Identify a name-specific reference or, if appropriate, a Related Entity (see section 2.1).

29. **Step 2: Identify bonds with relevant tenor.** Find bonds whose remaining years to maturity match or lie close to the WAL² of the ECA transaction (i.e. *a duration neutral bond*)³. For bonds, it is recommended to approximate the bond duration by remaining years to maturity^{4,5}. Linear Interpolation of two bonds (anchor bonds) will normally be needed to achieve this match. If there is any bond that has a better liquidity profile: more recent issue date, larger amount outstanding, more frequent secondary trades observed in information sources, higher liquidity scores, they should be used as anchor bonds. If there are no two anchor bonds to use for interpolation, and the only available appropriate bond does not match the WAL of the transaction, extrapolation to shorter tenors is possible whereas extrapolation to longer tenors is capped to 6 months longer than the WAL of the transaction.

30. **Step 3: Identify relevant bonds reflecting the credit profile in the transaction.** Users should focus on market instruments that have similar credit profiles and seniority as the underlying contract. For a standard ECA transaction without significant credit enhancements, a senior unsecured bond is typically the appropriate benchmark. Subordinated bonds have been excluded from the eligible bonds.

31. **Step 4: Identify relevant bonds from a liquidity perspective.** The relevant bonds should be identified by using the pre-defined set of eligibility criteria presented in the table below:

² The WAL of the ECA transaction is computed by summing the WAL of the repayment period and half of the disbursement period in years

³ For a straight fixed coupon bond, duration is a weighted average of individual maturities of cash flows.

⁴ Remaining years to maturity as of valuation date.

⁵ For callable bonds other than make-whole call provisions, it is recommended to use years to worst instead of years to maturity due to the fact that the bond's actual life tends to be shorter than the legal maturity and that the secondary prices are based on the actual life. For bonds with make-whole call provisions, it is recommended to use years to maturity since there is practically no value in the call option. Years to worst of the callable bonds can be calculated by counting remaining years to the work-out date, which often coincides with the first call date from the valuation date.

Table 1. Criteria and Eligibility for relevant name-specific bonds

Criteria	Eligibility for relevant name-specific bonds	
Currency	Denominated in currencies of High Income OECD, High Income Euro Area Countries and Countries classified in country risk category 0 ⁶	
Maturity	At least one year to legal maturity	
Coupon	Fixed rate	
Seniority	Senior	
Amount Outstanding	Minimum outstanding par amount of US\$ 300 million for investment grade securities and US\$ 150 million for speculative grade securities. For bonds denominated in non-dollar currencies, the amount outstanding is to be converted to dollar using the exchange rate as of the valuation date.	
Market of issue	Publicly issued in the Eurobond and domestic markets of each currency	
Type of security	<u>Included</u>	<u>Excluded</u>
	<ul style="list-style-type: none"> ▪ Fixed rate bullet and callable bonds 	<ul style="list-style-type: none"> ▪ Puttable bonds, floating rate notes (FRN). Linked notes with variable coupon rates
	<ul style="list-style-type: none"> ▪ Zero coupon bonds ▪ Underwritten MTN. Global market of issue. Eurobonds ▪ Reg-S tranche of SEC registered bonds 	<ul style="list-style-type: none"> ▪ Warrants, convertible bonds, PIK bonds. Structured notes with embedded optionality on equity. ▪ Fixed rate notes with predetermined sinking schedule
		<ul style="list-style-type: none"> ▪ Strips
		<ul style="list-style-type: none"> ▪ Private placements
		<ul style="list-style-type: none"> ▪ 144A tranche of SEC registered bonds ▪ Subordinated bonds
	<ul style="list-style-type: none"> ▪ Senior bonds 	<ul style="list-style-type: none"> ▪ Capital securities

32. **Step 5: Preferably match the currency of the bond issue with the one of the ECA transaction.** In the cases where such a match would not be possible it is recommended to calculate bond spreads based on the main funding currency and then convert them to the currency of the underlying ECA transaction.

33. **Step 6: Calculate the bond spread.** The reference rate required for bond spread calculation is the swap rate at the same WAL as the bond. Users should use a one-month average to reduce the impact of daily market fluctuations which is accessible through the broker's screens. It may be the case that relevant bonds are rather new issuances so that a one-month average cannot be produced. In this case it is recommended to take the average since issuance. If there is no bond matching the transaction's WAL, calculate the averages of the spreads of the anchor bonds. After obtaining the spreads of two bonds, calculate the bond spread at WAL by linearly combining those two spreads.

34. **Step 7: Check that the premium rate obtained is equal or higher than the Minimum Actuarial Premium Rate (or MAP in the calculator).** Users may use the TCMB-BAP publicly available calculator to perform this check: the calculator allows for users to include the Name-specific bond rate and it will automatically provide the minimum pricing to be respected.

⁶ For updated list of countries, refer to the OECD webpage (<https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/country-risk-classification/cre-crc-current-english.pdf>)

Figure 2. TCMB-BAP calculator using Name-specific (or related entities) corporate bonds

TCMB	
Disbursement period (months)	12
Repayment period (years)	5.0
Cover ratio	95%
Buyer Credit Rating	BB+
Premium Discount Rate (CIRR base rate)	1.48%
Government bond maturity for PDR	3 yr

Name Specific instruments	
Bond	135 bps
CDS	
Syn. loan	

Calculation results	TCMB BAP	Bond	CDS	Syn. loan	MAP
	Spread at PR: 3.25 years	101 bps	135 bps		
Cover adjusted spread	96 bps	128 bps			45 bps
Unfinanced upfront premium rate	2.9217%	3.8616%			1.3889%
Financed upfront premium rate	3.0096%	4.0167%			1.4084%

Minimum pricing	
TCMB BAP	101 bps
	96 bps
	2.9217%
	3.0096%

Note: In this case, the result from **Bonds** may apply in accordance with the relevant form of official support. If the result from **Bonds** was below the Minimum Actuarial Premium Rate, then MAP rates would apply and be shown as minimum pricing.

- **Steps to follow when deriving a premium using a Name-specific (or related entities) CDS**

35. **Step 1: Get a list of all available CDS of a company (or related entity).**

36. **Step 2: Select the appropriate CDS from the list.** An eligible CDS should be a senior debt security and ideally denominated in the same currency as the ECA financing. If no CDS are available in the same currency, other currencies may be used as currency has little influence on the spread. The tenor of the CDS should match the WAL of the ECA financing. If the WAL does not match the tenor of the available CDS, interpolation should be used.

37. **Step 3: Use the average spread.** Users should use the average credit spread over the reference period of one month.

38. **Step 4: Check that the premium rate obtained is equal or higher than the Minimum Actuarial Premium Rate.** Users may use the TCMB-BAP publicly available calculator to perform this check: the calculator allows for users to include the Name-specific CDS rate and it will automatically provide the minimum pricing to be respected.

Figure 3. TCMB-BAP calculator using CDS

TCMB	
Disbursement period (months)	12
Repayment period (years)	5.0
Cover ratio	95%
Buyer Credit Rating	BB+
Premium Discount Rate (CIRR base rate)	1.48%
Government bond maturity for PDR	3 yr

Name Specific instruments	
Bond	
CDS	143 bps
Syn. loan	

Calculation results	TCMB BAP	Bond	CDS	Syn. loan	MAP
	Spread at PR: 3.25 years	101 bps		143 bps	
Cover adjusted spread	96 bps		136 bps		45 bps
Unfinanced upfront premium rate	2.9217%		4.0945%		1.3889%
Financed upfront premium rate	3.0096%		4.2693%		1.4084%

Minimum pricing	
TCMB BAP	101 bps
	96 bps
	2.9217%
	3.0096%

Note: In this case, the result from CDS may apply in accordance with the relevant form of support. If the result from the CDS was below the Minimum Premium Actuarial Rate, then MAP rates would apply and be shown as minimum pricing.

2.4.2. Application of credit-enhancement factors (CEF)

39. According to Article 27 c) and Annex X of the Arrangement, Participants may apply a discount to the premium rate when a Buyer Risk Credit Enhancement (BRCE) applies to the buyer of a market benchmark transaction. This discount is applied once the pricing of the premium rate has been done (using any of the techniques described above). Therefore the final premium rate (after application of the discount) may be lower than that of the TCMB-BAP, the Name-specific CDS or corporate bond. However, in no case can the premium be lower than the Minimum Actuarial Premium Rate.

40. The maximum Credit enhancement factor (CEF) that can be applied as a discount to the premium rate in a market benchmark transaction is limited to 25 percent: 15 percent for an “asset based security” (as defined in Annex X) or 10 percent for a “fixed asset security” (as defined in Annex X)⁷ and 10 bps for an escrow account.

3. Premium rules for syndicated project finance or asset-backed transactions

3.1. Scope of syndicated market pricing

41. Syndicate market benchmarking is used when a Participant provides support as part of a syndicate in an asset backed or project finance transaction. To qualify as a syndicate, all of the conditions as described in the Arrangement Article 21 c) 1) must be met.

Box 4. Criteria to qualify as a syndicate

1. To qualify as an asset-backed transaction, there must be a first priority security interest on the asset being financed and, in the case of a lease structure, assignment and/or a first priority security interest in connection with the lease payments. To qualify as a project finance transaction, The transaction must involve the export of goods or services to an independent (legally and economically) project company whereby, (1) the cashflows and earnings of the project company are considered by the lender to be the source of funds from which a loan will be repaid and (2) the assets of the project company are considered by the lender to be collateral for the loan.
2. In addition, at least 25% of the syndicate must be composed of commercial market loan(s)/guarantee(s), without any bilateral or multilateral support (e.g., ECA, DFI, IFI or MDB), where all parties to the financing are on *pari passu* terms on all financial terms and conditions and security package and,
3. The transaction financial terms and conditions must be fully compliant with the Arrangement, as modified by provisions of market benchmark pricing in syndicated loan(s)/guarantee(s) transactions.

3.2. Methodology to apply to price the premium when ECA support is provided as part of a syndicate

42. When support is granted as part of a syndicate, ECAs should at least match the financial conditions of the private market institutions also involved in the transaction [Article 21 c) 1) of the Arrangement].

⁷ Asset based security and fixed asset based security may not be used together in one transaction.

3.2.1. Syndicated loan market benchmark

43. Under the syndicated loan scenario, ECAs may match the price charged by the funding bank, for direct lenders, this means that the all-in cost (premium and interest rate) must not be lower than the total price offered by the funding bank; for pure cover providers, this means that the premium may not be lower than the price for the credit risk of the funding bank. In addition the premium charged by pure cover providers may not go below the Minimum Actuarial Premium Rate.

- **Determination of the minimum premium rate for pure cover providers**

44. A pure cover provider shall charge no less than the premium charged by the commercial market participants. In order to do so, the pure cover provider must separate the costs related to the credit risk from the other costs (the funding costs of the bank). In addition, the premium may not be lower than the Minimum Actuarial Premium Rate.

45. **Step 1: Obtain the all-in margin above the relevant floating benchmark interest rate from the participating bank(s) on the syndicate loan package.**

46. **Step 2: Subtract funding costs of the bank.** In order to do so, users could subtract the all-in margin with no more than the five-year CDS spread on the lowest rated bank, as long as it is rated BBB or higher, participating in the syndication. If no CDS is available, pure cover providers may use the average of the CDS pricing from a peer group of banks whose rating is the same as the bank in the syndicate.

47. **Step 3: Subtract administration cost of the bank.** If administration costs are not known, pure cover providers may use no more than 15 bps p.a. as an estimate of administration costs. This amount should be subtracted from the residual.

48. **Step 4: Check that the resulting residual from the above described calculation is higher than or equal to the Minimum Actuarial Premium Rate in bps p.a.** Users may use the TCMB-BAP publicly available calculator to perform this check: the calculator allows for users to include the Syndicate Loan rate and it will automatically provide the minimum pricing to be respected.

Figure 4. TCMB-BAP calculator using Syndicated Loan market benchmark

TCMB					
Disbursement period (months)	12				
Repayment period (years)	5.0				
Cover ratio	95%				
Buyer Credit Rating	BB+				
Premium Discount Rate (CIRR base rate)	1.48%				
Government bond maturity for PDR	3 yr				
Name Specific instruments					
Bond					
CDS					
Syn. loan	97 bps				
Calculation results					
	TCMB BAP	Bond	CDS	Syn. loan	MAP
Spread at PR: 3.25 years	101 bps			97 bps	47 bps
Cover adjusted spread	96 bps			92 bps	45 bps
Unfinanced upfront premium rate	2.9217%			2.8028%	1.3889%
Financed upfront premium rate	3.0096%			2.8836%	1.4084%
					Minimum pricing
					Syn. loan
					97 bps
					92 bps
					2.8028%
					2.8836%

Note: In this case, the result from **Syndicated Loan** may apply in accordance with the relevant form of official support. If the result from **Syndicated Loan** was below the Minimum Actuarial Premium Rate, then MAP rates would apply and be shown as minimum pricing.

- **Determination of the minimum premium rate for direct lenders**

49. A direct lender may charge the all-in cost of the commercial market participants, so long as they are charging interest on the same basis (fixed or floating) as the commercial market participants.

50. Alternatively, a direct lender may opt to charge CIRR plus the minimum premium rate, in which case the direct lender shall determine the minimum premium rate according to the methodology set forth above for pure cover providers, but in no circumstances, shall the combination of the CIRR and minimum premium rate be less than the all-in cost being charged by the commercial market participants in the syndicate.

3.2.2. *Guarantee syndicate benchmark in project finance or asset-backed financing syndicates*

- **Definition of a guarantee syndicate benchmark**

51. A guarantee syndicate is a syndicate of one or more commercial financial institutions (FIs) (such as pension funds, life insurance companies, private and/or state owned specialised banks) and ECA(s) that are taking the credit risk of the transaction but not providing funding for the export credit.

52. Guarantee Syndicate Benchmarks relate to premiums and other fees set by the Guarantee Syndicate, relying on the commercial FI(s) to secure an adequate return for taking the same credit risk as the ECA(s) for the relevant export credit transaction.

53. The ECA's share in the syndicate shall never exceed 75%, the remaining 25% must be covered by the commercial FI(s).

- **Guidelines to be used to derive a premium from a guarantee syndicate benchmark**

54. **Step 1: Obtain information on all terms and conditions for the relevant guarantee syndicate from the lead arranger** (usually a commercial FI) including fee structure and guarantee premium.

55. **Step 2: Ensure that terms and conditions offered by the ECA are identical or stricter than those offered by the commercial FI.** If several commercial guarantees are granted in relation to the transaction, the commercial guarantee providing for the least extensive rights to claim and/or obligations to pay shall be the governing in this regard.

56. **Step 3: Ensure that the commercial FI(s) do(es) not benefit from any remuneration or credit enhancement** related to the relevant transaction unless the exact same support is offered to the ECA.

57. **Step 4: Assess compensation of any fees distributed to the commercial FIs.** If fees, such as the arrangement fee and agent fee are distributed to commercial FI(s), the ECA shall assess their compensation and compare it with market standards for similar syndicates (both loan- and guarantee syndicates). Each fee may be treated differently, but the ECA must quote all fees and premium on the same basis (bps or up-front) as the commercial FI(s).

58. **Step 5: Cross check that the all-in guarantee premium including relevant fees quoted by the guarantee syndicate are equal to or higher than the relevant Minimum Actuarial Premium Rate.**