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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Annex to the Council Decision (EU) 2023/ … establishing the position to be taken on behalf of the European Union regarding the decision of the Participants to the Arrangement on Officially Supported Export Credits on amendments to that Arrangement

ANNEX to the COUNCIL DECISION (EU) 2023/ …

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CHAPTER I: GENERAL PROVISIONS

1. PURPOSE

a) The main purpose of the Arrangement on Officially Supported Export Credits, referred to throughout this document as the Arrangement, is to provide a framework for the orderly use of officially supported export credits.

b) The Arrangement seeks to foster a level playing field for official support, as defined in Article 5 a), in order to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.

2. STATUS

The Arrangement, developed within the OECD framework, initially came into effect in April 1978 and is of indefinite duration. The Arrangement is a Gentlemen's Agreement among the Participants; it is not an OECD Act[1], although it receives the administrative support of the OECD Secretariat (hereafter: "the Secretariat").

3. PARTICIPATION

The Participants to the Arrangement currently are: Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom and the United States. Other OECD Members and non-members may be invited to become Participants by the current Participants.

4. INFORMATION AVAILABLE TO NON-PARTICIPANTS

a) The Participants undertake to share information with non-Participants on notifications related to official support as set out in Article 5 a).

b) A Participant shall, on the basis of reciprocity, reply to a request from a non-Participant in a competitive situation on the financial terms and conditions offered for its official support, as it would reply to a request from a Participant.

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1 As defined in Article 5 of the OECD Convention.

5. SCOPE OF APPLICATION

The Arrangement shall apply to all official support provided by or on behalf of a government for export of goods and/or services, including financial leases, which have a repayment term of two years or more.

a) Official support may be provided in different forms:

1) Export credit guarantee or insurance (pure cover).

2) Official financing support:

- direct credit/financing and refinancing, or
- interest rate support.

3) Any combination of the above.

b) The Arrangement shall apply to tied aid; the procedures set out in Chapter IV shall also apply to trade-related untied aid.

c) The Arrangement does not apply to exports of military equipment and agricultural commodities.

d) Official support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country which is not the final destination of the goods, primarily with the aim of obtaining more favourable repayment terms.

6. PROHIBITIONS ON ARRANGEMENT SUPPORT

Participants shall not provide officially supported export credits or tied aid for:

a) The export of new coal-fired electricity generation plants or parts thereof, comprising all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of such power stations. The addition of a new coal-fired electricity generation unit to an existing plant is deemed to be a new coal-fired electricity generation plant.

b) The export supply of equipment to existing coal-fired electricity generation plants, unless all the following conditions are met:

   i. The purpose of the equipment supplied is air pollution abatement, water pollution abatement, or CO2 emissions abatement.

   ii. The equipment supplied induces neither an extension of the useful lifetime of the plant nor a capacity increase.

c) The prohibitions set out in paragraphs a) and b) above do not apply to coal-fired electricity generation plants that operate with effective carbon capture utilisation and storage (CCUS) facilities or the retrofitting of existing coal-fired electricity generation plants to install CCUS, as provided for under Project Class B, Type 1 of Appendix I to Annex I.

d) Participants agree to undertake a review, upon request by a Participant, of non-CCUS CO_2 emission abatement technologies which may be developed in the future, for purposes of exceptions from paragraphs a) and b) above. The inclusion of any future exception shall be based on a consensus decision by the Participants.

e) The provisions set out in paragraphs a) through d) above shall be reviewed no later than 31 December 2022, in order to contribute to the common goal of addressing climate change, taking into account:

i. The most recent reports on climate science and the implications for global infrastructure investment decisions of holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels;

ii. Officially supported export credits or tied aid support to other coal related projects;

iii. Availability of CCUS technology; and

iv. Availability of non-CCUS CO_2 abatement technologies.

7. SECTOR UNDERSTANDINGS

a) The following Sector Understandings are part of the Arrangement:

- Climate Change (Annex I)
- Nuclear Power Plants (Annex II)
- Civil Aircraft (Annex III)
- Ships (Annex IV)

b) A Participant to either Annex I, II, or IV may apply the respective provisions for official support for export of goods and/or services covered by the relevant Sector Understandings. For Annexes I or II, where the Sector Understanding does not include a corresponding provision to that of the Arrangement, a Participant to that Sector Understanding shall apply the provision of the Arrangement.

c) For the export of goods and/or services covered by Annex III, the Participants that are also Participants to that Sector Understanding shall apply the provisions of that Sector Understanding.

8. WITHDRAWAL

A Participant may withdraw by notifying the Secretariat in writing by means of instant communication, *e.g.* using the electronic mail system that is maintained by the Secretariat to facilitate communications amongst Participants and the Secretariat. The withdrawal takes effect 180 calendar days after receipt of the notification by the Secretariat.

~~9~~. MONITORING

The Secretariat shall monitor the implementation of the Arrangement.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS FOR EXPORT CREDITS

Financial terms and conditions for export credits encompass all the provisions set out in this Chapter which shall be read in conjunction one with the other. The Arrangement sets out limitations on terms and conditions that may be officially supported. The Participants recognise that more restrictive financial terms and conditions than those provided for by the Arrangement traditionally apply to certain trade or industrial sectors. The Participants shall continue to respect such customary financial terms and conditions, in particular the principle by which repayment terms do not exceed the useful life of the goods and services.

10. CLASSIFICATION OF COUNTRIES FOR LOCAL COSTS SUPPORT

a) Category I countries are High Income[2] OECD countries. All other countries are in Category II.

b) The following operational criteria and procedures apply when classifying countries:

   1) Classification for Arrangement purposes is determined by *per capita* GNI as calculated by the World Bank for the purposes of the World Bank classification of borrowing countries.

[2] Defined by the World Bank on an annual basis according to *per capita* GNI.

2) In cases where the World Bank does not have enough information to publish per capita GNI data, the World Bank shall be asked to estimate whether the country in question has *per capita* GNI above or below the current threshold. The country shall be classified according to the estimate unless the Participants decide to act otherwise.

3) If a country is reclassified in accordance with Article 10 a), the reclassification will take effect two weeks after the conclusions drawn from the above-mentioned data from the World Bank have been communicated to all Participants by the Secretariat.

4) In cases where the World Bank revises figures, such revisions shall be disregarded in relation to the Arrangement. Nevertheless, the classification of a country may be changed by way of a Common Line and Participants would favourably consider a change due to errors and omissions in the figures subsequently recognised in the same calendar year in which the figures were first distributed by the Secretariat.

c) A country will change category only after its World Bank category has remained unchanged for two consecutive years.

11. DOWN PAYMENT, MAXIMUM OFFICIAL SUPPORT AND LOCAL COSTS

a) The Participants shall require purchasers of goods and services, which are the subject of official support, to make down payments of a minimum of 15% of the export contract value at or before the starting point of credit as defined in Annex XIII. For the assessment of down payments, the export contract value may be reduced proportionally if the transaction includes goods and services from a third country which are not officially supported. Financing/insurance of 100% of the premium is permissible. Premium may or may not be included in the export contract value. Retention payments made after the starting point of credit are not regarded as down payment in this context.

b) Official support for such down payments shall only take the form of insurance or guarantee against the usual pre-credit risks.

c) Except as provided for in paragraphs b) and d), the Participants shall not provide official support in excess of 85% of the export contract value, including third country supply but excluding local costs.

d) The Participants may provide official support for local costs, under the following conditions:

1) The maximum amount of official support for local costs shall not exceed:

   - For Category I countries, 40% of the export contract value.

   - For category II countries, 50% of the export contract value.

2) Official support for local costs shall not be provided on terms more favourable/less restrictive than those agreed for the related exports.

3) Where official support for local costs exceeds 15% of the export contract value, such official support shall be subject to prior notification, pursuant to Article 44, specifying the nature of the local costs being supported.

12. MAXIMUM REPAYMENT TERMS

a) The repayment term shall not exceed the useful life of the goods and services exported or, as appropriate, the useful life of the project to which goods and services are being exported.

b) Notwithstanding Article 12 a), the maximum repayment term is 15 years.

c) Notwithstanding Article 12 b), the maximum repayment term for any power plant[3] that is not eligible to be supported under Annexes I or II is 12 years.

d) The Participant shall give prior notification in accordance with Article 44 when official support will be provided for any transaction with a repayment term of greater than ten years and that has a credit value of SDR 10 million or more.

13. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

a) The principal sum of an export credit shall normally be repaid in equal and regular instalments or, when appropriate (*e.g.* when support is provided for lease transactions or for the export of stand-alone machinery or equipment), equal repayments of principal and interest combined.

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[3] For the purposes of the Arrangement, the term "power plant" comprises complete power plants or parts thereof, including all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of the plant. This does not include items for which the buyer is usually responsible, in particular costs associated with land development, roads, construction villages, power lines, and switchyard and water supply located outside the power plant site boundary, as well as costs arising in the buyer's country from official approval procedures (e.g. site permits, construction permit, fuel loading permits).

b) Principal shall be repaid no less frequently than annually and the first instalment of principal shall be made no later than one year after the starting point of credit.

c) Interest shall be paid no less frequently than every six months and the first payment of interest shall be made no later than six months after the starting point of credit. In the case of annual repayments of principal, interest shall be paid no less frequently than every twelve months and the first payment of interest shall be made no later than twelve months after the starting point of credit.

d) Interest due after the starting point of credit shall not be capitalised.

e) When duly justified by an imbalance between the timing of funds available to the obligor and the debt service profile permitted according to the parameters set out in paragraphs a) and b) above, or when the amortization schedule does not match the obligor or project's free cash flow, export credits may be provided within the following constraints:

1) No single repayment of principal or series of principal payments within a six-month period shall exceed 30% of the principal sum of the credit.

2) The first repayment of principal shall be made no later than 24 months after the starting point of credit.

3) The maximum weighted average life of the repayment period is the greater of 65% of the repayment term of the transaction or 6 years.

f) The Participant shall give prior notification in accordance with Article 44 when official support is provided according to Article 13 e) above for any transaction with a credit value of SDR 10 million or more. In such notifications, Participants shall, *inter alia*, provide:

1) detailed information on the repayment profile supported and an explanation of the reasons why there is an imbalance between the timing of funds available to the obligor and the debt service profile permitted according to Articles 13 a) and 13 b), and

2) for transactions with a repayment profile that does not match the free cash flow, a detailed and adequate justification of the repayment profile supported.

14. INTEREST RATES, PREMIUM RATES AND OTHER FEES

a) Interest excludes:

1) any payment by way of premium or other charge for insuring or guaranteeing supplier credits or financial credits;

2) any payment by way of banking fees or commissions relating to the export credit other than annual or semi-annual bank charges that are payable throughout the repayment period; and

3) withholding taxes imposed by the importing country.

b) Where official support is provided by means of direct credits/financing or refinancing, the premium either may be added to the face value of the interest rate or may be a separate charge; both components are to be specified separately to the Participants.

15. VALIDITY PERIOD FOR EXPORT CREDITS

Financial terms and conditions for an individual export credit or line of credit, other than the validity period for the Commercial Interest Reference Rates (CIRRs) set out in Annex XII, shall not be fixed for a period exceeding six months prior to final commitment.

16. ACTION TO AVOID OR MINIMISE LOSSES

The Arrangement does not prevent export credit authorities or financing institutions from agreeing to less restrictive financial terms and conditions than those provided for by the Arrangement, if such action is taken after the contract award (when the export credit agreement and ancillary documents have already become effective) and is intended solely to avoid or minimise losses from events which could give rise to non-payment or claims.

17. MATCHING

Taking into account a Participant's international obligations and consistent with the purpose of the Arrangement, a Participant may match, according to the procedures set out in Article 41, financial terms and conditions offered by a Participant or a non-Participant. Financial terms and conditions provided in accordance with this Article are considered to be in conformity with the provisions of Chapters I, II and, when applicable, Annexes I, II, III, and IV.

18. MINIMUM FIXED INTEREST RATES UNDER OFFICIAL FINANCING SUPPORT

a) The Participants providing official financing support for fixed rate loans shall apply the relevant CIRRs as minimum interest rates. CIRRs are interest rates established according to the following principles:

1) CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned;

2) CIRRs should closely correspond to the rate for first class domestic borrowers;

3) CIRRs should be based on the funding cost of fixed interest rate finance;

4) CIRRs should not distort domestic competitive conditions; and

5) CIRRs should closely correspond to a rate available to first class foreign borrowers.

b) The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate credit risk premium to be charged for the risk of non-repayment pursuant to the provisions of Article 20.

19. CONSTRUCTION AND APPLICATION OF CIRRs

The CIRR for official financing support provided under the Arrangement and all of its Annexes other than the Sector Understanding on Export Credits for Civil Aircraft (Annex III) and the Sector Understanding on Export Credits for Ships (Annex IV) is determined and applied according to the provisions of Annex XII.

20. PREMIUM FOR CREDIT RISK

The Participants shall charge premium, in addition to interest charges, to cover the risk of non-repayment of export credits. The premium rates charged by the Participants shall be risk-based, shall converge and shall not be inadequate to cover long-term operating costs and losses.

21. MINIMUM PREMIUM RATES FOR CREDIT RISK

The Participants shall charge no less than the applicable Minimum Premium Rate (MPR) for Credit Risk.

a) The applicable MPR is determined according to the following factors:

- the applicable country risk classification;
- the time at risk (*i.e.* the Horizon of Risk or HOR);
- the selected buyer risk category of the obligor;
- the percentage of political and commercial risk cover and quality of official export credit product provided;
- any country risk mitigation technique applied; and
- any buyer risk credit enhancements that have been applied.

b) MPRs are expressed in percentages of the principal value of the credit as if premium were collected in full at the date of the first drawdown of the credit. An explanation of how to calculate the MPRs, including the mathematical formula, is provided in Annex VI.

c) Irrespective of the destination country, the premium rates charged by Participants for Market Benchmark Transactions, *i.e.*, transactions involving ultimate obligors/guarantors (*i.e.* credit risk entities) in Category 0 Countries, High Income OECD Countries and High Income Euro Area Countries[4], or involving a multilateral or regional institution that the Participants agree is generally exempt from the monetary control and transfer regulations of the country in which it is located[5] shall be determined on a case-by-case basis. In order to ensure that the premium rates charged for transactions involving obligors, and where appropriate guarantors, in such countries do not undercut private market pricing, the Participants shall adhere to the following procedures, using agreed conventions to translate the relevant benchmark pricing into premium rates:

[4] The status of a country in terms of: (1) whether it is a High Income country (as defined by the World Bank on an annual basis according to per capita GNI), (2) membership in the OECD and (3) whether it is part of the Euro Area is reviewed on an annual basis. The designation of a country under Article 21 c) as a High Income OECD country or a High Income Euro Area country as well as the removal of such designation will only come into effect after the country's income classification (High Income or otherwise) has remained unchanged for two consecutive years. A change in a country's designation as a High Income OECD country or a High Income Euro Area country as well as the removal of such designation related to a change in OECD membership or being part of the Euro Area will come into effect immediately at the time of the annual review of countries' status.

[5] The assessment of whether or not a Multilateral or Regional Institution is generally exempt from the monetary control and transfer regulations of the country in which it is located shall be made based on the criteria set out in Annex VIII, The Participants shall maintain a list of the institutions deemed as meeting the criteria and, therefore, subject to the premium rates for Market Benchmark Transactions.

1) Where a Participant provides official support as part of a syndicated loan package that is structured as either an asset-backed[6] or project finance[7] transaction, then:

- the all-in cost of the direct lending portion shall be no less than the all-in cost charged by the commercial market participant(s) in the syndicate;

- the premium charged for pure cover shall be no less than the translated equivalent premium rate charged by the commercial market participant(s) and no less than the applicable Minimum Actuarial Premium rate~~,~~**;** and

- the Participant choosing applying a premium rate based on a syndicated loan package shall give prior notification according to Article 44.

To qualify as a syndicated loan package, all of the following conditions must be met:

- At least 25% of the syndicate is commercial market loan(s)/guarantee(s), without any bilateral or multilateral support (*e.g.,* ECA, DFI, IFI or MDB)[8], where all parties to the financing are on *pari passu* terms on all financial terms and conditions, including security package; and

[6] 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.

[7] 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.

[8] This portion of the 25% criterion may be met where the non-cash payment portion of a transaction involving a single bank receiving ECA cover includes an uncovered portion of at least 25%. Such transactions must meet all of the other criteria of sub-paragraph 1, including the *pari passu* provisions of this *tiret*.

- The transaction financial terms and conditions are fully compliant with the Arrangement, as modified by these provisions of Market Benchmark pricing in syndicated loans/guarantees transactions.

2) For all other Market Benchmark Transactions, the following procedures shall apply:

- Taking into consideration the availability of market information and the characteristics of the underlying transaction, Participants shall determine the premium rate to be applied by benchmarking against one or more of the market benchmarks set forth in Annex VIII, choosing the benchmark(s) deemed most appropriate for the specific transaction.

- Notwithstanding the preceding paragraph, Participants may not charge a premium rate that is lower than the corresponding premium determined by the Through the Cycle Market Benchmark (TCMB) model, based on the risk classification and total term (WAL of the whole transaction) of the transaction unless the market benchmark is derived from a Name-Specific or Related Entity (i) secondary market bond or (ii) Credit Default Swap (CDS). A Participant charging a premium rate lower than the corresponding premium determined by the TCMB model, based on the Accredited Credit Rating Agency[9] (CRA) rating of the Name-Specific market benchmark[10] shall give prior notification in accordance with Article 44. However, the premium charged may not be less than the corresponding Minimum Actuarial Premium.

[9] Where the obligor/guarantor is rated by more than one Accredited CRA, the CRA rating is the best available foreign currency rating on a senior unsecured basis for the obligor (or guarantor). The Secretariat shall compile and maintain a list of such accredited CRAs.

[10] In the event that a relevant Name-Specific market pricing entity is not rated by an Accredited CRA, then the resulting market pricing shall be considered to be below the corresponding TCMB rate and be subject to prior notification in accordance with Article 44.

- In determining the premium rate, a Participant shall determine a risk rating for the ultimate obligor/guarantor, including whether the obligor/guarantor is rated by an Accredited CRA. A Participant may set a rating one notch better (on the Accredited CRA's scale) than that provided by an Accredited CRA. If there is no Accredited CRA rating, the risk classification may not exceed (be more favourable than) the CRA rating of the sovereign in the obligor/guarantor's domicile by more than two notches. Participants must give prior notification in accordance with Article 44 in the following scenarios:

  - Where a Participant classifies the obligor/guarantor as better than the best rating from an Accredited CRA, or

  - If there is no Accredited CRA rating, where a Participant classifies a transaction as CC2 or better, or a credit rating letter equivalent to AAA to A-, or equal to or more favourable than the best Accredited CRA rating of the sovereign in the obligor's/guarantor's domicile.

d) The "highest risk" countries in Category 7 shall, in principle, be subject to premium rates in excess of the MPRs established for that Category; these premium rates shall be determined by the Participant providing official support.

e) In calculating the MPR for a transaction, the applicable country risk classification shall be the classification of the obligor's country and the applicable buyer risk classification shall be the classification of the obligor[11], unless security in the form of an irrevocable, unconditional, on-demand, legally valid and enforceable guarantee of the total debt repayment obligation for the entire duration of the credit is provided by a third party that is creditworthy in relation to the size of the guaranteed debt. In the case of a third party guarantee, a Participant may choose to apply the country risk classification of the country in which the guarantor is located and the buyer risk category of the guarantor.[12]

f) The criteria and conditions relating to the application of a third party guarantee according to the situations described in the first and second *tirets* of paragraph e) above are set out in Annex VIII.

g) The HOR convention used in the calculation of an MPR is one-half of the disbursement period plus the entire repayment period and assumes a regular export credit repayment profile, *i.e.* repayment in equal semi-annual instalments of principal plus accrued interest beginning six months after the starting point of credit. For export credits with non-standard repayment profiles, the equivalent repayment period (expressed in terms of equal, semi-annual instalments) is calculated using the following formula: equivalent repayment period = (average weighted life of the repayment period -0.25) / 0.5.

[11] The premium rates charged for transactions with a third party guarantee provided by an obligor in a Category 0 country, High Income OECD country, High Income Euro Area country, or by a multilateral or regional institution deemed as meeting the criteria set out in Annex VIII are subject to the requirements set out in Article 21 c).

[12] In the case of a third party guarantee, the applicable country risk classification and buyer risk category must be related to the same entity, *i.e.* either the obligor or the guarantor.

h) The Participant choosing to apply an MPR associated with a third party guarantor located in a country other than that of the obligor shall give prior notification according to Article 43.

22. COUNTRY RISK CLASSIFICATION

With the exception of High Income OECD countries and High Income Euro Area countries, countries shall be classified according to the likelihood of whether they will service their external debts (*i.e.* country credit risk).

a) The five elements of country credit risk are:

- general moratorium on repayments decreed by the obligor's/guarantor's government or by that agency of a country through which repayment is effected;
- political events and/or economic difficulties arising outside the country of the notifying Participant or legislative/administrative measures taken outside the country of the notifying Participant which prevent or delay the transfer of funds paid in respect of the credit;
- legal provisions adopted in the obligor's/guarantor's country declaring repayments made in local currency to be a valid discharge of the debt, notwithstanding that, as a result of fluctuations in exchange rates, such repayments, when converted into the currency of the credit, no longer cover the amount of the debt at the date of the transfer of funds;

- any other measure or decision of the government of a foreign country which prevents repayment under a credit; and
- cases of force majeure occurring outside the country of the notifying Participant, *i.e.* war (including civil war), expropriation, revolution, riot, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves and nuclear accidents.

b) Countries are classified into one of eight Country Risk Categories (0-7). MPRs have been established for Categories 1 through 7, but not for Category 0, as the level of country risk is considered to be negligible for countries in this Category. The credit risk associated with transactions in Category 0 countries is predominantly related to the risk of the obligor/guarantor.

c) The classification of countries[13] is achieved through the Country Risk Classification Methodology, which is comprised of:

- The Country Risk Assessment Model (the Model), which produces a quantitative assessment of country credit risk which is based, for each country, on three groups of risk indicators: the payment experience of the Participants, the financial situation and the economic situation. The methodology of the Model consists of different steps including the assessment of the three groups of risk indicators, and the combination and flexible weighting of the risk indicator groups.

[13] For administrative purposes, some countries that are eligible to be classified into one of the eight Country Risk Categories may not be classified if they do not generally receive officially supported export credits. For such non-classified countries, Participants are free to apply the country risk classification which they deem appropriate.

- The qualitative assessment of the Model results, considered country-by-country to integrate the political risk and/or other risk factors not taken into account in full or in part by the Model. If appropriate, this may lead to an adjustment to the quantitative Model assessment to reflect the final assessment of the country credit risk.

d) Country Risk Classifications shall be monitored on an on-going basis and reviewed at least annually and changes resulting from the Country Risk Classification Methodology shall be immediately communicated by the Secretariat. When a country is re-classified in a lower or higher Country Risk Category, the Participants shall, no later than five working days after the re classification has been communicated by the Secretariat, charge premium rates at or above the MPRs associated with the new Country Risk Category.

e) The country risk classifications shall be made public by the Secretariat.

23. SOVEREIGN RISK ASSESSMENT

a) For all countries classified through the Country Risk Classification Methodology according to Article 22 d), the risk of the sovereign shall be assessed in order to identify, on an exceptional basis, those sovereigns:

- that are not the lowest-risk obligor in the country and;

- whose credit risk is significantly higher than country risk.

b) The identification of sovereigns meeting the criteria listed in paragraph a) above shall be undertaken according to the Sovereign Risk Assessment Methodology that has been developed and agreed by the Participants.

c) The list of sovereigns identified as meeting the criteria listed in paragraph a) above shall be monitored on an on-going basis and reviewed at least annually and changes resulting from the Sovereign Risk Assessment Methodology shall be immediately communicated by the Secretariat.

d) The list of sovereigns identified under paragraph b) above shall be made public by the Secretariat.

24. BUYER RISK CLASSIFICATION

Obligors and, as appropriate, guarantors in countries classified in Country Risk Categories 1-7 shall be classified into one of the buyer risk categories that have been established in relation to the country of the obligor/guarantor[14]. The matrix of buyer risk categories into which obligors and guarantors shall be classified is provided in Annex VI. Qualitative descriptions of the buyer risk categories are provided in Annex IX.

a) Buyer-risk classifications shall be based on the senior unsecured credit rating of the obligor/guarantor as determined by the Participant.

b) Notwithstanding paragraph a) above, transactions having a credit value of SDR 5 million or less may be classified on a transaction basis, *i.e.* after the application of any buyer risk credit enhancements; however, such transactions, regardless of how they are classified, are not eligible for any discounts for the application of buyer risk credit enhancements.

c) Sovereign obligors and guarantors are classified in buyer risk category SOV/CC0.

[14] Rules related to the classification of buyers should be understood to stipulate the most favourable classification that can be applied, *e.g.* a sovereign buyer may be classified in a less favourable buyer risk classification.

d) On an exceptional basis, non-sovereign obligors and guarantors may be classified in the "Better than Sovereign" (SOV+) buyer risk category if[15]:

- the obligor/guarantor has a foreign currency rating from an Accredited CRA that is better than the foreign currency rating (from the same CRA) of their respective sovereign, or

- the obligor/guarantor's is located in a country in which sovereign risk has been identified as being significantly higher than country risk.

e) The Participants shall give prior notification according to Article 44 for transactions:

- with a non-sovereign obligor/guarantor where the premium charged is below that set by Buyer Risk Category CC1, *i.e.* CC0 or SOV+;

- with a non-sovereign obligor/guarantor where a Participant assesses a buyer risk rating for a non-sovereign obligor/guarantor that is rated by an Accredited CRA, and the buyer risk rating assessed is better than the Accredited CRA rating[16].

f) In the event of competition for a specific transaction, whereby the obligor/guarantor has been classified by competing Participants in different buyer risk categories, the competing Participants shall seek to arrive at a common buyer risk classification. If agreement on a common classification is not reached, the Participant(s) having classified the obligor/guarantor in a higher buyer risk classification are not prohibited from applying the lower buyer risk classification.

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15 The MPRs associated with the Better than Sovereign (SOV+) buyer risk category are 10% lower than the MPRs associated with the Sovereign (CC0) buyer risk category.

16 Where the non-sovereign borrower is rated by more than one accredited CRA, notification is only required where the buyer risk rating is more favourable than the most favourable of the CRA ratings.

25. PERCENTAGE AND QUALITY OF OFFICIAL EXPORT CREDIT COVER

The MPRs are differentiated to take account of the differing quality of export credit products and percentage of cover provided by the Participants as set out in Annex VI. The differentiation is based on the exporter's perspective (*i.e.* to neutralise the competitive effect arising from the differing qualities of product provided to the exporter/financial institution).

a) The quality of an export credit product is a function of whether the product is insurance, guarantee or direct credit/financing, and for insurance products whether cover of interest during the claims waiting period (*i.e.* the period between the due date of payment by the obligor and the date that the insurer is liable to reimburse the exporter/financial institution) is provided without a surcharge.

b) All existing export credit products offered by the Participants shall be classified into one of the three product categories which are:

- Below standard product, *i.e.* insurance without cover of interest during the claims waiting period and insurance with cover of interest during the claims waiting period with an appropriate premium surcharge;

- Standard product, *i.e.* insurance with cover of interest during the claims waiting period without an appropriate premium surcharge and direct credit/financing; and

- Above standard product, *i.e.* guarantees.

26. COUNTRY RISK MITIGATION TECHNIQUES

a) The Participants may apply the following country risk mitigation techniques, the specific application of which is set out in Annex X:

- Offshore Future Flow Structure Combined with Offshore Escrow Account

- Local Currency Financing

b) The Participant applying an MPR reflecting the use of country risk mitigation shall give prior notification according to Article 43.

c) No country risk mitigation shall be applied to Market Benchmark transactions.

27. BUYER RISK CREDIT ENHANCEMENTS

a) The Participants may apply the following buyer risk credit enhancements (BRCE) which allow for the application of a Credit Enhancement Factor (CEF) greater than 0:

- Assignment of Contract Proceeds or Receivables

- Asset Based Security

- Fixed Asset Security

- Escrow Account

b) Definitions of the BRCE and maximum CEF values for both Category 1-7 obligors as well as Market Benchmark obligors are set out in Annex X.

c) BRCEs may be used alone or in combination with the following restrictions:

- The maximum CEF that can be achieved through the use of the BRCEs is 0.35 for Category 1-7 transactions. For Market Benchmark transactions, a maximum discount of 25% may be applied to the Market Benchmark MPR, but the premium charged may not be lower than the applicable Minimum Actuarial Premium rate.

- "Asset Based Security" and "Fixed Asset Security" cannot be used together in one transaction.

- In a Category 1-7 transaction where the applicable country risk classification has been improved through the use of "Offshore Future Flow Structure Combined with Offshore Escrow Account", no BRCEs may be applied.

d) The Participants shall give prior notification according to Article 44 for transactions with a non-sovereign obligor/guarantor where BRCEs result in the application of a CEF of greater than 0, or whenever BRCEs are used in a Market Benchmark transaction that result in pricing below the corresponding TCMB MPR.

28. VALIDITY OF THE MINIMUM PREMIUM RATES FOR CREDIT RISK

a) To assess the adequacy of MPRs and to allow, if necessary, for adjustments, either upwards or downwards, Premium Feedback Tools (PFTs), shall be used in parallel to monitor and adjust the MPRs on a regular basis.

b) The PFTs shall assess the adequacy of the MPRs in terms of both the actual experience of institutions providing official export credits as well as private market information on the pricing of credit risk.

CHAPTER III: PROVISIONS FOR TIED AID

29. GENERAL PRINCIPLES

a) The Participants have agreed to have complementary policies for export credits and tied aid. Export credit policies should be based on open competition and the free play of market forces. Tied aid policies should provide needed external resources to countries, sectors or projects with little or no access to market financing. Tied aid policies should ensure best value for money, minimise trade distortion, and contribute to developmentally effective use of these resources.

b) The tied aid provisions of the Arrangement do not apply to the aid programmes of multilateral or regional institutions.

c) These principles do not prejudge the views of the Development Assistance Committee (DAC) on the quality of tied and untied aid.

d) A Participant may request additional information relevant to the tying status of any form of aid. If there is uncertainty as to whether a certain financing practice falls within the scope of the definition of tied aid set out in Annex XIII, the donor country shall furnish evidence in support of any claim to the effect that the aid is in fact “untied” in accordance with the definition in Annex XIII.

30. FORMS OF TIED AID

Tied aid can take the form of:

a) Official Development Assistance (ODA) loans as defined in the "DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)";

b) ODA grants as defined in the "DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)"; and

c) Other Official Flows (OOF), which includes grants and loans but excludes officially supported export credits that are in conformity with the Arrangement; or

d) Any association, *e.g.* mixture, in law or in fact, within the control of the donor, the lender or the borrower involving two or more of the preceding, and/or the following financing components:

   1) an export credit that is officially supported by way of direct credit/financing, refinancing, interest rate support, guarantee or insurance to which the Arrangement applies; and

   2) other funds at or near market terms, or down payment from the purchaser.

31. ASSOCIATED FINANCING

a) Associated financing may take various forms including mixed credits, mixed financing, joint financing, parallel financing or single integrated transactions. The main characteristics are that they all feature:

- a concessional component that is linked in law or in fact to the non-concessional component;

- either a single part or all of the financing package that is, in effect, tied aid; and

- concessional funds those are available only if the linked non-concessional component is accepted by the recipient.

b) Association or linkage "in fact" is determined by such factors as:

- the existence of informal understandings between the recipient and the donor authorities;

- the intention by the donor to facilitate the acceptability of a financing package through the use of ODA;

- the effective tying of the whole financing package to procurement in the donor country;

- the tying status of ODA and the means of tendering for or contracting of each financing transaction; or
- any other practice, identified by the DAC or the Participants in which a de facto liaison exists between two or more financing components.

c) The following practices shall not prevent the determination of an association or linkage "in fact":

- contract splitting through the separate notification of the component parts of one contract;
- splitting of contracts financed in several stages;
- non notification of interdependent parts of a contract; and/or
- non notification because part of the financing package is untied.

32. COUNTRY ELIGIBILITY FOR TIED AID

a) There shall be no tied aid to countries whose per capita GNI, according to the World Bank data, is above the upper limit for lower middle income countries. The World Bank recalculates this threshold on an annual basis[17]. A country will be reclassified only after its World Bank category has been unchanged for two consecutive years.

[17] Based on the annual review by the World Bank of its country classification, a per capita Gross National Income (GNI) threshold will be used for the purpose of tied aid eligibility; such threshold is available on the OECD website (https://www.oecd.org/trade/topics/export-credits/arrangement-and-sector-understandings/financing-terms-and-conditions/).

b) The following operational criteria and procedures apply when classifying countries:

1) Classification for Arrangement purposes is determined by per capita GNI as calculated by the World Bank for the purposes of the World Bank classification of borrowing countries; this classification shall be made public by the Secretariat.

2) In cases where the World Bank does not have enough information to publish per capita GNI data, the World Bank shall be asked to estimate whether the country in question has per capita GNI above or below the current threshold. The country shall be classified according to the estimate unless the Participants decide to act otherwise.

If a country's eligibility for tied aid does change in accordance with paragraph a) above, the reclassification shall take effect two weeks after the conclusions drawn from the above mentioned World Bank data have been communicated to all Participants by the Secretariat. Before the effective date of reclassification, no tied aid financing for a newly eligible country may be notified; after that date, no tied aid financing for a newly promoted country may be notified, except that individual transactions covered under a prior committed credit line may be notified until the expiry of the credit line (which shall be no more than one year from the effective date).

3) In cases where the World Bank revises figures such revisions shall be disregarded in relation to the Arrangement. Nevertheless, the classification of a country may be changed by way of a Common Line, in accordance with the appropriate procedures in Articles 54 to 59, and the Participants would favourably consider a change due to errors and omissions in the figures subsequently recognised in the same calendar year as the figures that were first distributed by the Secretariat.

33. PROJECT ELIGIBILITY

a) Tied aid shall not be extended to public or private projects that normally should be commercially viable if financed on market or Arrangement terms.

b) The key tests for such aid eligibility are:

- whether the project is financially non-viable, *i.e.* does the project lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project's operating costs and to service the capital employed, *i.e.* the first key test; or

- whether it is reasonable to conclude, based on communication with other Participants, that it is unlikely that the project can be financed on market or Arrangement terms, *i.e.* the second key test. In respect of projects larger than SDR 50 million special weight shall be given to the expected availability of financing at market or Arrangement terms when considering the appropriateness of such aid.

c) The key tests under paragraph b) above are intended to describe how a project should be evaluated to determine whether it should be financed with such aid or with export credits on market or Arrangement terms. Through the consultation process described in Articles 47 to 49, a body of experience is expected to develop over time that will more precisely define, for both export credit and aid agencies, ex ante guidance as to the line between the two categories of projects.

d) Any Participant desiring to provide aid for goods and/or services covered by the Sector Understanding on Export Credits for Ships must confirm that the ship is not operated under an open registry during the repayment term and that appropriate assurance has been obtained that the ultimate owner resides in the receiving country, is not a non-operational subsidiary of a foreign interest and has undertaken not to sell the ship without its government's approval.

34. MINIMUM CONCESSIONALITY LEVEL

The Participants shall not provide tied aid that has a concessionality level of less than 35%, or 50% if the beneficiary country is a Least Developed Country (LDC), except for the cases set out below, which are also exempt from the notification procedures set out in Articles 45 a) and 46 a):

a) Technical assistance: tied aid where the official development aid component consists solely of technical co-operation that is less than either 3% of the total value of the transaction or SDR 1 million, whichever is lower; and

b) Small projects: capital projects of less than SDR 1 million that are funded entirely by development assistance grants.

35. EXEMPTIONS FROM COUNTRY OR PROJECT ELIGIBILITY FOR TIED AID

a) The provisions of Articles 32 and 33 do not apply to tied aid where the concessionality level is 80% or more except for tied aid that forms part of an associated financing package, described in Article 31.

b) The provisions of Article 33 do not apply to tied aid with a value of less than SDR 2 million except for tied aid that forms part of an associated financing package, described in Article 31.

c) Tied aid for LDCs as defined by the United Nations is not subject to the provisions of Articles 32 and 33.

d) The Participants shall give favourable consideration to an acceleration of tied aid procedures in line with the specific circumstances:

- a nuclear or major industrial accident that causes serious transfrontier pollution, where any affected Participant wishes to provide tied aid to eliminate or mitigate its effects, or

- the existence of a significant risk that such an accident may occur, where any potentially affected Participant wishes to provide tied aid to prevent its occurrence.

e) Notwithstanding Articles 32 and 33, a Participant may, exceptionally, provide support by one of the following means:

- the Common Line procedure as defined in Annex XIII and described in Articles 54 to 59; or

- the justification on aid grounds through support by a substantial body of the Participants as described in Articles 47 and 48; or
- a letter to the OECD Secretary-General, in accordance with the procedures in Article 49, which the Participants expect will be unusual and infrequent.

36. CALCULATION OF CONCESSIONALITY LEVEL OF TIED AID

The concessionality level of tied aid is calculated using the same method as for the grant element used by the DAC, except that:

a) The discount rate used to calculate the concessionality level of a loan in a given currency, *i.e.* the Differentiated Discount Rate (DDR), is subject to annual change on 15 January and is calculated as follows[18]:

- The average of the CIRR using seven year government bond yields + Margin

Margin (M) depends on the repayment term (R) as follows:

R	M
less than 15 years	0.75
from 15 years up to, but not including 20 years	1.00
from 20 years up to but not including 30 years	1.15
from 30 years and above	1.25

[18] With new CIRR rules having been agreed, the calculation of the DDR according to the approach provided in Article 36a) is temporary pending further discussions by the Participants.

- For all currencies the average of the CIRR using seven year government bond yields is calculated taking an average of the monthly rates valid during the six-month period between 15 August of the previous year and 14 February of the current year, as determined according to the provisions of Annex XII. The calculated rate, including the Margin, is rounded to the nearest ten basis points.

b) The base date for the calculation of the concessionality level is the starting point of credit as set out in Annex XIII.

c) For the purpose of calculating the overall concessionality level of an associated financing package, the concessionality levels of the following credits, funds and payments are considered to be zero:

- export credits that are in conformity with the Arrangement;
- other funds at or near market rates;
- other official funds with a concessionality level of less than the minimum permitted under Article 34 except in cases of matching; and
- down payment from the purchaser.

Payments on or before the starting point of credit that are not considered down payment shall be included in the calculation of the concessionality level.

d) The discount rate in matching: in matching aid, identical matching means matching with an identical concessionality level that is recalculated with the discount rate in force at the time of matching.

e) Local costs and third country procurement shall be included in the calculation of concessionality level only if they are financed by the donor country.

f) The overall concessionality level of a package is determined by multiplying the nominal value of each component of the package by the respective concessionality level of each component, adding the results, and dividing this total by the aggregate nominal value of the components.

g) The discount rate for a given aid loan is the rate in effect at the time of notification. However, in cases of prompt notification, the discount rate is the one in effect at the time when the terms and conditions of the aid loan were fixed. A change in the discount rate during the life of a loan does not change its concessionality level.

h) If a change of currency is made before the contract is concluded, the notification shall be revised. The discount rate used to calculate the concessionality level will be the one applicable at the date of revision. A revision is not necessary if the alternative currency and all the necessary information for calculation of the concessionality level are indicated in the original notification.

i) Notwithstanding paragraph g) above, the discount rate used to calculate the concessionality level of individual transactions initiated under an aid credit line shall be the rate that was originally notified for the credit line.

37. VALIDITY PERIOD FOR TIED AID

a) The Participants shall not fix terms and conditions for tied aid, whether this relates to the financing of individual transactions or to an aid protocol, an aid credit line or to a similar agreement, for more than two years. In the case of an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of its signature, to be notified in accordance with Article 46; the extension of a credit line shall be notified as if it were a new transaction with a note explaining that it is an extension and that it is renewed at terms allowed at the time of the notification of the extension. In the case of individual transactions, including those notified under an aid protocol, an aid credit line or similar agreement, the validity period shall commence at the date of notification of the commitment in accordance with Article 45 or 46, as appropriate.

b) When a country has become ineligible for 17-year World Bank Loans for the first time, the validity period of existing and new tied aid protocols and credit lines notified shall be restricted to one year after the date of the potential reclassification in accordance with procedures in Article 34 b).

c) Renewal of such protocols and credit lines is possible only on terms which are in accordance with the provisions of Articles 32 and 33 of the Arrangement following:

   - the reclassification of countries; and
   - a change in the provisions of the Arrangement.

   In these circumstances, the existing terms and conditions can be maintained notwithstanding a change in the discount rate set out in Article 36.

38. MATCHING

Taking into account a Participant's international obligations and consistent with the purpose of the Arrangement, a Participant may match, according to the procedures set out in Article 43, financial terms and conditions offered by a Participant or a non-Participant.

CHAPTER IV: PROCEDURES

SECTION 1: COMMON PROCEDURES FOR EXPORT CREDITS AND TRADE-RELATED AID

39. NOTIFICATIONS

The notifications set out by the procedures in the Arrangement shall be made in accordance with, and include the information contained in Annex V, and shall be copied to the Secretariat.

40. INFORMATION ON OFFICIAL SUPPORT

a) As soon as a Participant commits the official support which it has notified in accordance with the procedures in Articles 43 to 46, it shall inform all other Participants accordingly by including the notification reference number on the relevant *ex-post* reporting form.

b) In an exchange of information in accordance with Articles 51 to 53, a Participant shall inform the other Participants of the credit terms and conditions that it envisages supporting for a particular transaction and may request similar information from the other Participants.

In addition to the information stipulated in Annex V that is provided for transactions that have been prior-notified under Articles 43 or 44, Participants shall provide, in the relevant *ex-post* reporting form:

1) for all transactions supported, information related to the actual repayment term and repayment profile on an ex-post basis, including, inter alia, the following items: (1) the length of the repayment term, (2) the repayment profile, (3) the frequency of principal repayments, (4) the frequency of interest payments, (5) the length of time between the starting point of credit and the first repayment of principal, and where relevant, (6) the weighted average life of the repayment period, (7) percentage of principal repaid by the mid-point of the credit, (8) maximum single instalment, (9) explanation of imbalance between timing of funds available and the debt service profile used, and (10) detailed and adequate justification of repayment profile supported if the repayment profile does not match the free cash flow.

2) in addition, for transactions supported under Article 13 e) that have not been prior-notified, Participants shall also provide:

   - an explanation of the reasons why there is an imbalance between the timing of funds available to the obligor and the debt service profile permitted according to Articles 13 a) and 13 b), and

   - for transactions with a repayment profile that does not match the free cash flow, a detailed and adequate justification of the repayment profile supported.

41. PROCEDURES FOR MATCHING

a) Before matching financial terms and conditions assumed to be offered by a Participant or a non-Participant pursuant to Articles 17 and 38, a Participant shall make every reasonable effort, including as appropriate by use of the face-to-face consultations described in Article 53, to verify that these terms and conditions are officially supported and shall comply with the following:

1) The Participant shall notify all other Participants of the terms and conditions it intends to support following the same notification procedures required for the matched terms and conditions. In the case of matching a non-Participant, the matching Participant shall follow the same notification procedures that would have been required had the matched terms been offered by a Participant.

2) Notwithstanding sub-paragraph 1) above, if the applicable notification procedure would require the matching Participant to withhold its commitment beyond the final bid closing date, then the matching Participant shall give notice of its intention to match as early as possible.

3) If the initiating Participant moderates or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

b) A Participant intending to offer identical financial terms and conditions to those notified according to Articles 43 and 44 may do so once the waiting period stipulated therein has expired. This Participant shall give notification of its intention as early as possible.

42. SPECIAL CONSULTATIONS

a) A Participant that has reasonable grounds to believe that financial terms and conditions offered by another Participant (the initiating Participant) are more generous than those provided for in the Arrangement shall inform the Secretariat; the Secretariat shall immediately make available such information.

b) The initiating Participant shall clarify the financial terms and conditions of its offer within two working days following the issue of the information from the Secretariat.

c) Following clarification by the initiating Participant, any Participant may request that a special consultation meeting of the Participants be organised by the Secretariat within five working days to discuss the issue.

d) Pending the outcome of the special consultation meeting of the Participants, financial terms and conditions benefiting from official support shall not become effective.

SECTION 2: PROCEDURES FOR EXPORT CREDITS

43. PRIOR NOTIFICATION WITH DISCUSSION

a) A Participant shall notify all other Participants at least ten calendar days before issuing any commitment with a credit value of greater than SDR ten million in accordance with Annex V if:

- the applicable country risk classification and buyer risk category used to calculate the MPR is that of a third party guarantor located outside of the obligor's country [*i.e.* determined according to Article 21 e)];

- the applicable MPR has been decreased through the application of a country risk mitigation technique listed in Article 26; or

b) A Participant shall notify all other Participants at least ten calendar days before issuing any commitment with a credit value of greater than SDR ten million in accordance with Annex V if the support is extended under Article 6 a) 2) of Annex I.

c) If any other Participant requests a discussion during this period, the initiating Participant shall wait an additional ten calendar days.

d) A Participant shall inform all other Participants of its final decision following a discussion to facilitate the review of the body of experience in accordance with Article 62. The Participants shall maintain records of their experience with regard to premium rates notified in accordance with paragraph a) above.

44. PRIOR NOTIFICATION

a) A Participant shall, in accordance with Annex V, notify all other Participants at least ten calendar days before issuing any commitment with a repayment term of greater than ten years and with a credit value of greater than SDR ten million.

b) A Participant shall, in accordance with Annex V, notify all other Participants at least ten calendar days before issuing any commitment with a credit value of greater than SDR 10 million if the support is provided according to:

1) Article 13 f),

2) Article 5 of Annex II, or

3) Article 6 a) 1) of Annex I.

c) A Participant shall, in accordance with Annex V, notify all other Participants at least ten calendar days before issuing any commitment with a credit value of greater than SDR ten million if the support is provided in relation to:

1) Article 11 d) 3).

2) The application of a premium rate for a market benchmark transaction in accordance with the provisions of;

- The third tiret of Article 21 c) 1) when participating as part of a syndicated loan package.

- The second tiret of Article 21 c) 2), whereby the premium rate charged is lower than the corresponding premium determined by the TCMB model.

- The third tiret of Article 21 c) 2), whereby a Participant classifies the obligor/guarantor as better than the best rating from an Accredited CRA; or if there is no rating from an Accredited CRA and a Participant classifies a transaction as CC2 or better, or a credit rating letter equivalent to AAA to A-, or equal to or more favourable than the best Accredited CRA rating of the sovereign in the obligor's/guarantor's domicile.

3) The application of a premium rate for a transaction subject to Country Risk Category 1-7 MPRs in accordance with Article 24 e) whereby the selected buyer risk category used to calculate the MPR for a transaction with a non-sovereign obligor/guarantor is:

   - lower than CC1 (*i.e.* CC0 or SOV+); or

   - better than the Accredited CRA rating.

4) The application of a premium rate in accordance with Article 27 d) for transactions with a non-sovereign obligor/guarantor, whereby the use of buyer risk credit enhancements results in the application of a CEF of greater than 0, or whenever BRCEs are used in a Market Benchmark transaction that result in pricing below the corresponding TCMB MPR.

5) A transaction that is subject to common line as stipulated in Article 59 c).

SECTION 3: PROCEDURES FOR TRADE-RELATED AID

45. PRIOR NOTIFICATION

a) A Participant shall give prior notification in accordance with Annex V if it intends to provide official support for:

- Trade-related untied aid with a value of SDR 2 million or more, and a concessionality level of less than 80%;

- Trade-related untied aid with a value of less than SDR 2 million and a grant element (as defined by the DAC) of less than 50%;

- Trade-related tied aid with a value of SDR 2 million or more and a concessionality level of less than 80%; or

- Trade-related tied aid with a value of less than SDR 2 million and a concessionality level of less than 50%, except for the cases set out in Articles 35 a) and b).

- Tied aid in accordance with Article 35 d).

b) Prior notification shall be made at the latest 30 working days before the bid closing or commitment date, whichever is the earlier.

c) If the initiating Participant moderates or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

d) The provision of this Article shall apply to tied aid that forms part of an associated financing package, as described in Article 31.

46. PROMPT NOTIFICATION

a) A Participant shall promptly notify all other Participants, *i.e.* within two working days of the commitment, in accordance with Annex V, if it provides official support for tied aid with a value of either:

- SDR 2 million or more and a concessionality level of 80% or more; or

- less than SDR 2 million and a concessionality level of 50% or more except for the cases set out in Articles 34 a) and b).

b) A Participant shall also promptly notify all other Participants when an aid protocol, credit line or similar agreement is signed.

c) Prior notification need not be given if a Participant intends to match financial terms and conditions that were subject to a prompt notification.

SECTION 4: CONSULTATION PROCEDURES FOR TIED AID

47. PURPOSE OF CONSULTATIONS

a) A Participant seeking clarification about possible trade motivation for tied aid may request that a full Aid Quality Assessment (detailed in Annex XI) be supplied.

b) Furthermore, a Participant may request consultations with other Participants, in accordance with Article 48. These include face-to-face consultations as outlined in Article 53 in order to discuss:

- first, whether an aid offer meets the requirements of Articles 32 and 33; and
- if necessary, whether an aid offer is justified even if the requirements of Articles 32 and 33 are not met.

48. SCOPE AND TIMING OF CONSULTATIONS

a) During consultations, a Participant may request, among other items, the following information:

- the assessment of a detailed feasibility study/project appraisal;
- whether there is a competing offer with non-concessional or aid financing;
- the expectation of the project generating or saving foreign currency;
- whether there is co-operation with multilateral organisations such as the World Bank;

- the presence of International Competitive Bidding (ICB), in particular if the donor country's supplier is the lowest evaluated bid;

- the environmental implications;

- any private sector participation; and

- the timing of the notifications (*e.g.* six months prior to bid closing or commitment date) of concessional or aid credits.

b) The consultation shall be completed and the findings on both questions in Article 46 notified by the Secretariat to all Participants at least ten working days before the bid closing date or commitment date, whichever comes first. If there is disagreement among the consulting parties, the Secretariat shall invite other Participants to express their views within five working days. It shall report these views to the notifying Participant, which should reconsider going forward if there appears to be no substantial support for an aid offer.

49. OUTCOME OF CONSULTATIONS

a) A donor that wishes to proceed with a project despite the lack of substantial support shall provide prior notification of its intentions to other Participants, no later than 60 calendar days after the completion of the Consultation, *i.e.* acceptance of the Chairman's conclusion. The donor shall also write a letter to the Secretary-General of the OECD outlining the results of the consultations and explaining the overriding non-trade related national interest that forces this action. The Participants expect that such an occurrence will be unusual and infrequent.

b) The donor shall immediately notify the Participants that it has sent a letter to the Secretary General of the OECD, a copy of which shall be included with the notification. Neither the donor nor any other Participant shall make a tied aid commitment until ten working days after this notification to Participants has been issued. For projects for which competing commercial offers were identified during the consultation process, the aforementioned ten working-day period shall be extended to 15 days.

c) The Secretariat shall monitor the progress and results of consultations.

SECTION 5: INFORMATION EXCHANGE FOR EXPORT CREDITS AND TRADE-RELATED AID

50. CONTACT POINTS

All communications shall be made between the designated contact points in each country by means of instant communication, *e.g.* electronic mail, and shall be treated in confidence.

51. SCOPE OF ENQUIRIES

a) A Participant may ask another Participant about the attitude it takes with respect to a third country, an institution in a third country or a particular method of doing business.

b) A Participant that has received an application for official support may address an enquiry to another Participant, giving the most favourable credit terms and conditions that the enquiring Participant would be willing to support.

c) If an enquiry is made to more than one Participant, it shall contain a list of addressees.

d) A copy of all enquiries shall be sent to the Secretariat.

52. SCOPE OF RESPONSES

a) The Participant to which an enquiry is addressed shall respond within seven calendar days and provide as much information as possible. The reply shall include the best indication that the Participant can give of the decision it is likely to take. If necessary, the full reply shall follow as soon as possible. Copies shall be sent to the other addressees of the enquiry and to the Secretariat.

b) If an answer to an enquiry subsequently becomes invalid for any reason, because for example:

- an application has been made, changed or withdrawn, or
- other terms are being considered,

a reply shall be made without delay and copied to all other addressees of the enquiry and to the Secretariat.

53. FACE-TO-FACE CONSULTATIONS

a) A Participant shall agree within ten working days to requests for face-to-face consultations.

b) A request for face-to-face consultations shall be made available to Participants and non-Participants. The consultations shall take place as soon as possible after the expiry of the ten working-day period.

c) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow up action, *e.g.* a Common Line. The Secretariat shall promptly make available the outcome of the consultation.

54. PROCEDURES AND FORMAT OF COMMON LINES

a) Common Line proposals are addressed only to the Secretariat. A proposal for a Common Line shall be sent to all Participants and, where tied aid is involved, all DAC contact points by the Secretariat. The identity of the initiator is not revealed on the Common Line Register on the electronic Bulletin Board maintained by the Secretariat on the OECD Network Environment. However, the Secretariat may orally reveal the identity of the initiator to a Participant or DAC member on demand. The Secretariat shall keep a record of such requests.

b) The Common Line proposal shall be dated and shall be in the following format:

- Reference number, followed by “Common Line”.
- Name of the importing country and buyer.
- Name or description of the project as precise as possible to clearly identify the project.
- Terms and conditions foreseen by the initiating country.
- Common Line proposal.
- Nationality and names of known competing bidders.
- Commercial and financial bid closing date and tender number to the extent it is known.
- Other relevant information, including reasons for proposing the Common Line, availability of studies of the project and/or special circumstances.

c) A Common Line proposal put forward in accordance with Article 32 b) 4) shall be addressed to the Secretariat and copied to other Participants. The Participant making the Common Line proposal shall provide a full explanation of the reasons why it considers that the classification of a country should differ from the procedure set out in Article 32 b).

d) The Secretariat shall make publicly available the agreed Common Lines.

55. RESPONSES TO COMMON LINE PROPOSALS

a) Responses shall be made within 20 calendar days, although the Participants are encouraged to respond to a Common Line proposal as quickly as possible.

b) A response may be a request for additional information, acceptance, and rejection, a proposal for modification of the Common Line or an alternative Common Line proposal.

c) A Participant that advises that it has no position because it has not been approached by an exporter, or by the authorities in the recipient country in case of aid for the project, shall be deemed to have accepted the Common Line proposal.

56. ACCEPTANCE OF COMMON LINES

a) After a period of 20 calendar days, the Secretariat shall inform all Participants of the status of the Common Line proposal. If not all Participants have accepted the Common Line, but no Participant has rejected it, the proposal shall be left open for a further period of eight calendar days.

b) After this further period, a Participant that has not explicitly rejected the Common Line proposal shall be deemed to have accepted the Common Line. Nevertheless, a Participant, including the initiating Participant, may make its acceptance of the Common Line conditional on the explicit acceptance by one or more Participants.

c) If a Participant does not accept one or more elements of a Common Line it implicitly accepts all other elements of the Common Line. It is understood that such a partial acceptance may lead other Participants to change their attitude towards a proposed Common Line. All Participants are free to offer or match terms and conditions not covered by a Common Line.

d) A Common Line that has not been accepted may be reconsidered using the procedures in Articles 54 and 55. In these circumstances, the Participants are not bound by their original decision.

57. DISAGREEMENT ON COMMON LINES

If the initiating Participant and a Participant which has proposed a modification or alternative cannot agree on a Common Line within the additional eight-calendar day period, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.

58. EFFECTIVE DATE OF COMMON LINE

The Secretariat shall inform all Participants either that the Common Line will go into effect or that it has been rejected; the Common Line will take effect three calendar days after this announcement. The Secretariat shall make available on the electronic bulletin board a permanently updated record of all Common Lines that have been agreed or are undecided.

59. VALIDITY OF COMMON LINES

a) A Common Line, once agreed, shall be valid for a period of two years from its effective date, unless the Secretariat is informed that it is no longer of interest, and that this is accepted by all Participants. A Common Line concerning a specific transaction shall remain valid for a further two-year period if a Participant seeks an extension within 14 calendar days of the original date of expiry. Subsequent extensions of a Common Line concerning a specific transaction or any extension of a Common Line that is not related to a specific transaction may be agreed through the procedures set out in Articles 54 to 58. A Common Line agreed in accordance with Article **32** b) 4) shall be valid until World Bank data for the following year is available.

b) The Secretariat shall monitor the status of Common Lines and shall keep the Participants informed accordingly, through the maintenance of the listing "The Status of Valid Common Lines" on the electronic bulletin board. Accordingly, the Secretariat, *inter alia*, shall:

- Add new Common Lines when these have been accepted by the Participants.
- Update the expiry date when a Participant requests an extension.
- Delete Common Lines that have expired.
- Issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.

c) A Participant providing official support under a Common Line related to the rules concerning export credits (*i.e.* that is not related to the rules concerning trade-related aid) shall give prior notification of each transaction supported according to Article 44.

SECTION 6: REVIEWS

60. REGULAR REVIEW OF THE ARRANGEMENT

a) The Participants shall review regularly the functioning of the Arrangement. In the review, the Participants shall examine, *inter alia*, notification procedures, implementation and operation of the DDR system, rules and procedures on tied aid, questions of matching, prior commitments and possibilities of wider participation in the Arrangement.

b) This review shall be based on information of the Participants' experience and on their suggestions for improving the operation and efficacy of the Arrangement. The Participants shall take into account the objectives of the Arrangement and the prevailing economic and monetary situation. The information and suggestions that Participants wish to put forward for this review shall reach the Secretariat no later than 45 calendar days before the date of review.

61. REVIEW OF MINIMUM INTEREST RATES

The Participants shall undertake a comprehensive review of the CIRR provisions set out in Annex XII by no later than 15 July 2027.

62. REVIEW OF MINIMUM PREMIUM RATES AND RELATED ISSUES

The Participants shall regularly monitor and review all aspects of the premium rules and procedures. This shall include:

a) The Country Risk Classification and Sovereign Risk Assessment Methodologies to review their validity in the light of experience;

b) The level of the MPRs to ensure that they remain an accurate measure of credit risk, taking into account both the actual experience of institutions providing official export credits as well as private market information on the pricing of credit risk;

c) The differentiations in the MPRs which take account of the differing quality of export credit products and percentage of cover provided; and

d) The body of experience related to the use of country risk mitigation and buyer risk credit enhancements and the continued validity and appropriateness of their specific impact on the MPRs.

e) A comprehensive review of all aspects of the premium rules of the Arrangement, with a special emphasis on the Market Benchmark Pricing Rules, shall take place no later than 31 December 2024.

63. REVIEW OF OFFICIAL SUPPORT FOR LOCAL COSTS

The Participants shall review the provisions on local costs support by no later than 20 April 2024.

64. REVIEW OF REPAYMENT PROFILES AND TERMS

The Secretariat shall undertake a biennial comprehensive report on the repayment profiles and repayment terms for export credits supported by Participants according to Chapter II, Annex I and Annex II, based on prior notifications and *ex post* reporting. The report shall comprise a statistical and qualitative analysis of the use of repayment profile flexibilities and of the length repayment terms supported. Should the report indicate that more than 30% of Arrangement transactions supported under Chapter II, Annex I and Annex II used duly justified flexibilities, a mandatory review of the repayment structure parameters will be undertaken by the Participants.

ANNEX II: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR NUCLEAR POWER PLANTS

CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

1. SCOPE OF APPLICATION

a) This Sector Understanding sets out the provisions which apply to officially supported export credits relating to contracts for:

1) The export of complete nuclear power plants or parts thereof, comprising all components, equipment, materials and services, including the training of personnel directly required for the construction and commissioning of such plants.

2) The modernisation of existing nuclear power plants.

3) The supply of nuclear fuel and enrichment.

4) The provision of spent fuel management.

b) This Sector Understanding does not apply to:

1) Items located outside the nuclear power plant site boundary for which the buyer is usually responsible, in particular costs associated with land development, roads, construction village, power lines, switchyard[19] and water supply, as well as costs arising in the buyer's country from official approval procedures (*e.g.* site permit, construction permit, fuel loading permit).

2) Sub-stations, transformers and transmission lines located outside the nuclear power plant site boundary.

3) Official support provided for the decommissioning of a nuclear power plant.

[19] However, in cases where the buyer of the switchyard is the same as the buyer of the power plant and the contract is concluded in relation to the original switchyard for that power plant, the terms and conditions for the original switchyard shall not be more generous than those for the nuclear power plant.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS

2. MAXIMUM REPAYMENT TERMS

a) The maximum repayment term for goods and services covered by Article 1 a) 1) of this Sector Understanding is 22 years.

b) The maximum repayment term for goods and services covered by Article 1 a) 2) of this sector understanding, where both the overall value of the modernisation is at or above SDR 80 million and the economic life of the plant is likely to be extended by at least the repayment period to be awarded is 22 years. The maximum repayment term for all other transactions covered by Article 1 a) 2) of this sector understanding is 15 years.

c) The maximum repayment term for the initial fuel load is four years from delivery. The maximum repayment term for subsequent reloads of nuclear fuel is two years from delivery.

d) The maximum repayment term for spent fuel disposal is two years.

e) The maximum repayment term for enrichment and spent fuel management is five years.

3. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

a) The principal sum of an export credit shall normally be repaid in equal and regular instalments or, when appropriate (*e.g.* when support is provided for lease transactions or for the export of stand-alone machinery or equipment), equal repayments of principal and interest combined.

b) Principal shall be repaid no less frequently than annually and the first instalment of principal shall be made no later than one year after the starting point of credit.

c) Interest shall be paid no less frequently than every six months and the first payment of interest shall be made no later than six months after the starting point of credit. In the case of annual repayments of principal, interest shall be paid no less frequently than every twelve months and the first payment of interest shall be made no later than twelve months after the starting point of credit.

d) Interest due after the starting point of credit shall not be capitalised.

e) When duly justified by an imbalance between the timing of the funds available to the obligor and the debt service profile permitted according to the parameters set out in paragraphs a) and b) above, export credits supported under this Understanding may be provided within the following constraints:

1) No single repayment of principal or series of principal payments within a six-month period shall exceed 35% of the principal sum of the credit.

2) The first repayment of principal shall be made no later than 36 months after the starting point of credit.

3) The maximum weighted average life of the repayment period is the greater of 70% of the repayment term of the transaction or six years.

4. OFFICIAL SUPPORT FOR NUCLEAR FUEL AND FOR NUCLEAR FUEL RELATED SERVICES

Without prejudice to the provisions of Article 5 of this Sector Understanding, the Participants shall not provide free nuclear fuel or services.

5. AID

The Participants shall not provide aid support.

CHAPTER III: PROCEDURES

6. PRIOR NOTIFICATION

a) A Participant shall give prior notification in accordance with Article 44 of the Arrangement at least ten calendar days before issuing any commitment with a credit value of more than SDR ten million if it intends to provide support in accordance with the provisions of this Sector Understanding. For transactions that have been supported under Article 3 e) above, Participants shall, *inter alia*, provide:

1) detailed information on the repayment profile supported and an explanation of the reasons why there is an imbalance between the timing of funds available to the obligor and the debt service profile available if supported according to Articles 3 a) and 3 b), and

2) for transactions with a repayment profile that does not match the free cash flow, a detailed and adequate justification of the repayment profile supported.

b) A Participant shall inform all other Participants of its final decision following a discussion, to facilitate the review of the body of experience.

CHAPTER IV: REVIEW

7. REVIEW AND MONITORING

The Participants shall review regularly the provisions of the Sector Understanding and at the latest by the end of 2023.

ANNEX III: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

PART 1: GENERAL PROVISIONS

1. PURPOSE

a) The purpose of this Sector Understanding is to provide a framework for the predictable, consistent and transparent use of officially supported export credits for the sale or lease of aircraft and other goods and services specified in Article 4 a) below. This Sector Understanding seeks to foster a level playing field for such export credits, in order to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.

b) This Sector Understanding sets out the most favourable terms and conditions on which officially supported export credits may be provided.

c) To this aim, this Sector Understanding seeks to establish a balanced equilibrium that, on all markets:

1) Equalises competitive financial conditions between the Participants,

2) Neutralises official support among the Participants as a factor in the choice among competing goods and services specified in Article 4 a) below, and

3) Avoids distortion of competition among the Participants to this Sector Understanding and any other sources of financing.

d) The Participants to this Sector Understanding (the Participants) acknowledge that the provisions included in this Sector Understanding have been developed for the sole purpose of this Sector Understanding and such provisions do not prejudice the other parts of the Arrangement on Officially Supported Export Credits (the Arrangement) and their evolution.

2. STATUS

This Sector Understanding is a Gentlemen's Agreement among its Participants and is Annex III to the Arrangement; it forms an integral part of the Arrangement and it succeeds the Sector Understanding, which came into effect in July 2007.

3. PARTICIPATION

The Participants currently are: Australia, Brazil, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, the United Kingdom and the United States. Any non-Participant may become a Participant in accordance with the procedures set out in Appendix I.

4. SCOPE OF APPLICATION

a) This Sector Understanding shall apply to all official support provided by or on behalf of a government, and which has a repayment term of two years or more, for the export of:

1) New civil aircraft and engines installed thereon, including buyer furnished equipment.

2) Used, converted, and refurbished civil aircraft and engines installed thereon, including, in each case, buyer furnished equipment.

3) Spare engines.

4) Spare parts for civil aircraft and engines.

5) Maintenance and service contracts for civil aircraft and engines.

6) Conversion, major modifications and refurbishment of civil aircraft.

7) Engine kits.

b) Official support may be provided in different forms:

1) Export credit guarantee or insurance (pure cover).

2) Official financing support:

   - direct credit/financing and refinancing or
   - interest rate support.

3) Any combination of the above.

c) This Sector Understanding shall not apply to official support for:

1) The exports of new or used military aircraft and related goods and services listed in paragraph a) above, including when used for military purposes.

2) New or used flight simulators.

5. INFORMATION AVAILABLE TO NON-PARTICIPANTS

A Participant shall, on the basis of reciprocity, reply to a request from a non-Participant in a competitive situation on the financial terms and conditions offered for its official support as it would reply to a request from a Participant.

6. AID SUPPORT

The Participants shall not provide aid support, except for humanitarian purposes, through a Common Line procedure.

7. ACTIONS TO AVOID OR MINIMISE LOSSES

This Sector Understanding does not prevent its Participants from agreeing to less restrictive financial terms and conditions than those provided for by this Sector Understanding, if such action is taken after the export credit agreement and ancillary documents have already become effective and is intended solely to avoid or minimise losses from events which could give rise to non-payment or claims. A Participant shall notify all other Participants and the OECD Secretariat (the Secretariat), within 20 working days following the Participant's agreement with the buyer/borrower, of the modified financial terms and conditions. The notification shall contain information, including the motivation, on the new financial terms and conditions, using the reporting form set out in Appendix IV.

PART 2: NEW AIRCRAFT

CHAPTER I: COVERAGE

8. NEW AIRCRAFT

a) For the purpose of this Sector Understanding, a new aircraft is:

1) An aircraft, including buyer furnished equipment, and the engines installed on such aircraft owned by the manufacturer and not delivered nor previously used for its intended purpose of carrying passengers and/or freight and

2) Spare engines and spare parts when contemplated as part of the original aircraft order in accordance with the provisions of Article 20 a) below.

b) Notwithstanding the provisions of paragraph a) above, a Participant may support terms appropriate to new aircraft for transactions where, with the prior knowledge of that Participant, interim financing arrangements had been put in place because the provision of official support had been delayed; such delay shall not be longer than 18 months. In such cases, the repayment term and the final repayment date shall be the same as if the sale or lease of the aircraft would have been officially supported from the date the aircraft was originally delivered.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

Financial terms and conditions for export credits encompass all the provisions set out in this Chapter, which shall be read in conjunction one with the other.

9. ELIGIBLE CURRENCIES

The currencies, which are eligible for official financing support, are euro, Japanese yen, UK pound sterling, US dollar, and other fully convertible currencies for which data are available to construct the minimum interest rates mentioned in Appendix III.

10. DOWN PAYMENT AND MAXIMUM OFFICIAL SUPPORT

a) For transactions with buyers/borrowers classified in Risk Category 1 (as per Table 1 of Appendix II), the Participants shall:

   1) Require a minimum down payment of 20% of the net price of the aircraft at or before the starting point of credit;

   2) Not provide official support in excess of 80% of the net price of the aircraft.

b) For transactions with buyers/borrowers classified in Risk Categories 2 to 8 (as per Table 1 of Appendix II), the Participants shall:

1) Require a minimum down payment of 15% of the net price of the aircraft at or before the starting point of credit;

2) Not provide official support in excess of 85% of the net price of the aircraft.

c) A Participant which applies Article 8 b) above shall reduce the maximum amount of official support by the amount of principal of the instalments deemed due from the starting point of the credit so as to ensure that, at the time of disbursement, the amount outstanding is the same as if such an officially supported export credit was provided at the time of delivery. In such circumstances, prior to delivery the Participant shall have received an application for official support.

11. MINIMUM PREMIUM RATES

a) The Participants providing official support shall charge, for the credit amount officially supported, no less than the minimum premium rate set out in accordance with Appendix II.

b) The Participants shall use, whenever necessary, the agreed premium rate conversion model to convert between per annum spreads calculated on the outstanding amount of the official support and single up-front premium rates calculated on the original amount of the official support.

12. MAXIMUM REPAYMENT TERM

a) The maximum repayment term shall be 12 years for all new aircraft.

b) On an exceptional basis, and with a prior notification, a maximum repayment term of up to 15 years shall be allowed. In this case, a surcharge of 35% to the minimum premium rates calculated in accordance with Appendix II shall apply.

c) There shall be no extension of the repayment term by way of sharing of rights in the security on a *pari passu* basis with commercial lenders for the officially supported export credit.

13. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

a) The Participants shall apply a profile of repayment of principal and payment of interest as specified in sub-paragraph 1) or 2) below[1].

1) Repayment of principal and payment of interest combined shall be made in equal instalments:

- Instalments shall be made no less frequently than every three months and the first instalment shall be made no later than three months after the starting point of credit.

[1] *Ex-ante* semi-annual repayment reporting requirement does not apply to small aircraft transactions with a total financed amount of less than USD 5 million (*i.e.*, *de minimis* transactions).

- Alternatively, and subject to a prior notification (unless it is a *de minimis* transaction), instalments shall be made every six months and the first instalment shall be made no later than six months after the starting point of credit. In this case, a surcharge of 15% to the minimum premium rates calculated in accordance with Appendix II shall apply.

- In the case of a floating rate transaction, the principal amortising profile shall be set for the entire term, no more than five business days prior to the disbursement date, based on the floating or swap rate at that time.

2) Repayment of principal shall be made in equal instalments with interest payable on declining balances:

   - Instalments shall be made no less frequently than every three months and the first instalment shall be made no later than three months after the starting point of credit.

   - Alternatively, and subject to a prior notification (unless it is a *de minimis* transaction), instalments shall be made every six months and the first instalment shall be made no later than six months after the starting point of credit. In this case, a surcharge of 15% to the minimum premium rates calculated in accordance with Appendix II shall apply.

b) Notwithstanding paragraph a) above, and subject to a prior notification, the repayment of principal may be structured to include a final payment of all outstanding amounts on a specified date. In such case, repayments of principal prior to the final payment will be structured as set out in paragraph a) above, based on an amortization period not greater than the maximum repayment term allowed for the goods and services being supported.

c) Notwithstanding paragraph a) above, repayment of principal may be structured on terms less favourable to the obligor.

d) Interest due after the starting point of credit shall not be capitalised.

14. MINIMUM INTEREST RATES

a) The Participants providing official financing support shall apply either a minimum floating interest rate or a minimum fixed interest rate, in accordance with the provisions of Appendix III.

b) For jet aircraft of a net price of at least USD 35 million, official financing support on CIRR basis shall only be provided in exceptional circumstances. A Participant intending to provide such support shall notify all other Participants at least 20 calendar days before final commitment, identifying the borrower.

c) Interest rate excludes any payment by way of premium referred to in Article 11 above, and fees referred to in Article 16 below.

15. INTEREST RATE SUPPORT

The Participants providing interest rate support shall comply with the financial terms and conditions of this Sector Understanding and shall require any bank or any other financial institution which is a party to the interest supported transaction to participate in that transaction only on terms that are consistent in all respects with the financial terms and conditions of this Sector Understanding.

16. FEES

a) Subject to the limits of the premium holding period, the Participants providing official support in the form of pure cover shall charge a premium holding fee on the un-drawn portion of the official support during the premium holding period, as follows:

1) For the first six months of the holding period: zero basis points per annum.

2) For the second six months of the holding period: 12.5 basis points per annum.

3) For the third and final six months of the holding period: 25 basis points per annum.

b) The Participants providing official support in the form of direct credit / financing shall charge the following fees:

1) Arrangement / Structuring fee: 25 basis points on the disbursed amount payable at the time of each disbursement.

2) Commitment and premium holding fee: 20 basis points per annum on the un-drawn portion of the officially supported export credit to be disbursed, during the premium holding period, payable in arrears.

3) Administration fee: five basis points per annum on the amount of official support outstanding payable in arrears. Alternatively, the Participants may elect to have this fee payable as an upfront fee, on the amount disbursed, at the time of each disbursement pursuant to the provisions of Article 11 b) above.

17. CO-FINANCING

Notwithstanding Articles 14 and 16 above, in a co-financing where official support is provided by way of direct credit and pure cover, and where pure cover represents at least 35% of the officially supported amount, the Participant providing direct credit shall apply the same financial terms and conditions, including fees, as those provided by the financial institution under pure cover, to generate an all-in cost equivalence between the pure cover provider and the direct lender. In such circumstances, the Participant providing such support shall report the financial terms and conditions supported, including fees, in accordance with the reporting form set out in Appendix IV.

PART 3: USED AIRCRAFT, SPARE ENGINES, SPARE PARTS, MAINTENANCE AND SERVICE CONTRACTS

CHAPTER I: COVERAGE

18. USED AIRCRAFT AND OTHER GOODS AND SERVICES

This Part of the Sector Understanding shall apply to used aircraft and to spare engines, spare parts, conversion, major modification, refurbishing, maintenance and service contracts in conjunction with both new and used aircraft and engine kits.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS

The financial terms and conditions to be applied, other than the maximum repayment term, shall be in accordance with the provisions set out in Part 2 of this Sector Understanding.

19. SALE OF USED AIRCRAFT

a) Subject to paragraph b) below, the maximum repayment term for used aircraft shall be established in accordance with the age of the aircraft, as set out in the following table:

Age of aircraft (years since the date of original manufacture)	Maximum repayment terms for asset-backed or sovereign transactions (years)	Maximum repayment terms for transactions neither asset-backed nor sovereign (years)
1	10	8.5
2	9	7.5
3	8	6.5
4	7	6
5 – 8	6	5.5
Over 8	5	5

b) The maximum repayment term for aircraft that have undergone conversion, provided the transaction meets all the requirements of Article 19 of Appendix II and provided further that official support, if any, provided in respect of such conversion was not provided in accordance with Article 21 a) below, shall be established in accordance with the period of time since the date of conversion and the age of the aircraft, as set out in the following table:

Maximum repayment terms for asset-backed converted aircraft (years)

Period of time since the date of conversion (years)	Age of aircraft (years since the date of original manufacture)					
	1	2	3	4	5-8	Over 8
0 (Newly converted)	10	9	8	8	8	8
1	10	9	8	7	7	7
2	-----	9	8	7	6	6
3 or more	-----	-----	8	7	6	5

20. SPARE ENGINES AND SPARE PARTS

a) When purchased, or ordered in connection with the engines to be installed on a new aircraft, the official support for spare engines may be provided on the same terms and conditions as for the aircraft.

b) When purchased with new aircraft, the official support for spare parts may be provided on the same terms and conditions as for the aircraft up to a maximum 5% of the net price of the new aircraft and installed engines; paragraph d) below shall apply to official support for spare parts in excess of the 5% limit.

c) When spare engines are not purchased with a new aircraft, the maximum repayment term shall be eight years. For spare engines with a unit value of USD 10 million or more, the repayment term may be increased to 10 years, provided the transaction meets all the requirements of Article 19 of Appendix II.

d) When other spare parts are not purchased with a new aircraft, the maximum repayment term shall be:

1) Five years with a contract value of USD 5 million or more.

2) Two years with a contract value of less than USD 5 million.

21. CONTRACTS FOR CONVERSION/MAJOR MODIFICATION/REFURBISHING

a) If a transaction for conversion:

1) Is valued at USD 5 million or more, and

- Meets all the requirements of Article 19 of Appendix II, a Participant may offer official support with a repayment term of up to eight years.

- Does not meet all the requirements of Article 19 of Appendix II, a Participant may offer official support with a repayment term of up to five years.

2) Is valued at less than USD 5 million, a Participant may offer official support with a repayment term of up to two years.

b) If a transaction is for a major modification, or refurbishment, a Participant may offer official support with a repayment term of up to:

1) Five years if the contract value is USD 5 million or more;

2) Two years, if the contract value is less than USD 5 million.

22. MAINTENANCE AND SERVICE CONTRACTS

The Participants may offer official support with a repayment term of up to three years.

23. ENGINE KITS

The Participants may offer official support with a repayment term of up to five years.

PART 4: TRANSPARENCY PROCEDURES

All communications shall be made between the designated contact points in each Participant country by means of instant communication, *e.g.* using the electronic mail system that is maintained by the Secretariat to facilitate communications amongst Participants and the Secretariat. Unless otherwise agreed, all information exchanged under this Part of the Sector Understanding shall be treated by all Participants as confidential.

SECTION 1: INFORMATION REQUIREMENTS

24. INFORMATION ON OFFICIAL SUPPORT

a) Within one month after the date of a final commitment, a Participant shall submit the information required in Appendix IV to all other Participants, with a copy to the Secretariat.

b) In order to establish the margin benchmark in accordance with Appendix III Article 8 b), information on pure cover margins, as outlined in Appendix III Articles 8 c) and d), shall be submitted to the Secretariat no later than five days after the end of each month.

SECTION 2: EXCHANGE OF INFORMATION

25. REQUESTS FOR INFORMATION

a) A Participant may ask another Participant for information about the use of its officially supported export credits for the sale or lease of aircraft covered by this Sector Understanding.

b) A Participant that has received an application for official support may address an enquiry to another Participant, giving the most favourable credit terms and conditions that the enquiring Participant would be willing to support.

c) The Participant to which such an enquiry is addressed shall respond within seven calendar days and provide reciprocal information to the fullest extent possible. The reply shall include the best indication that the Participant can give of the decision it is likely to take. If necessary, the full reply shall follow as soon as possible.

d) Copies of all enquiries and responses shall be sent to the Secretariat.

26. FACE-TO-FACE CONSULTATIONS

a) In a competitive situation, a Participant may request face-to-face consultations with one or more Participants.

b) Any Participant shall agree within ten working days to such requests.

c) The consultations shall take place as soon as possible after the expiry of the ten working-day period.

d) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow up action. The Secretariat shall promptly make available to all Participants the outcome of the consultation.

27. SPECIAL CONSULTATIONS

a) A Participant (the initiating Participant) that has reasonable grounds to believe that financial terms and conditions offered by another Participant (the responding Participant) are more generous than those provided for in this Sector Understanding shall inform the Secretariat; the Secretariat shall immediately make available such information to the responding Participant.

b) The responding Participant shall clarify the financial terms and conditions of the official support being considered within five working days following the issue of the information from the Secretariat.

c) Following clarification by the responding Participant, the initiating Participant may request that a special consultation with the responding Participant be organised by the Secretariat within five working days to discuss the issue.

d) The responding Participant shall wait for the outcome of the consultation which shall be determined on the day of such consultation before proceeding any further with the transaction.

SECTION 3: COMMON LINES

28. PROCEDURES AND FORMAT OF COMMON LINES

a) Common Line proposals shall be addressed to the Secretariat only. The identity of the initiator is not revealed on the Common Line register on the electronic bulletin board maintained by the Secretariat on the OECD Network Environment. However, the Secretariat may orally reveal the identity of the initiator to a Participant on demand. The Secretariat shall keep a record of such requests.

b) The Common Line proposal shall be dated and shall be in the following format:

1) Reference number, followed by Common Line.

2) Name of the importing country and buyer/borrower.

3) Name or description of the transaction as precise as possible to clearly identify the transaction.

4) Common Line proposal for the most generous terms and conditions to be supported.

5) Nationality and names of known competing bidders.

6) Bid closing date and tender number to the extent it is known.

7) Other relevant information, including reasons for proposing the Common Line and as appropriate, special circumstances.

29. RESPONSES TO COMMON LINE PROPOSALS

a) Responses shall be made within 20 calendar days, although the Participants are encouraged to respond to a Common Line proposal as quickly as possible.

b) A response may be acceptance, rejection, a request for additional information, a proposal for modification of the Common Line or an alternative Common Line proposal.

c) A Participant that remains silent or advises that it has no position shall be deemed to have accepted the Common Line proposal.

30. ACCEPTANCE OF COMMON LINES

a) After a period of 20 calendar days, the Secretariat shall inform all Participants of the status of the Common Line proposal. If not all Participants have accepted the Common Line, but no Participant has rejected it, the proposal shall be left open for a further period of eight calendar days.

b) After this further period, a Participant that has not explicitly rejected the Common Line proposal shall be deemed to have accepted the Common Line. Nevertheless, a Participant, including the initiating Participant, may make its acceptance of the Common Line conditional on the explicit acceptance by one or more Participants.

c) If a Participant does not accept one or more elements of a Common Line it implicitly accepts all other elements of the Common Line.

31. DISAGREEMENT ON COMMON LINES

a) If the initiating Participant and a Participant which has proposed a modification or alternative cannot agree on a Common Line within the additional eight calendar-day period mentioned in Article 30 above, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.

b) A Common Line that has not been accepted may be reconsidered using the procedures in Articles 28 to 30 above. In these circumstances, the Participants are not bound by their original decision.

32. EFFECTIVE DATE OF COMMON LINE

The Secretariat shall inform all Participants either that the Common Line will go into effect or that it has been rejected; the agreed Common Line will take effect three calendar days after this announcement.

33. VALIDITY OF COMMON LINES

a) Unless agreed otherwise, a Common Line, once agreed, shall be valid for a period of two years from its effective date, unless the Secretariat is informed that it is no longer of interest, and that such situation is accepted by all Participants.

b) If a Participant seeks an extension within 14 calendar days of the original date of expiry and in the absence of disagreement, a Common Line shall remain valid for a further two-year period; subsequent extensions may be agreed through the same procedure.

c) The Secretariat shall monitor the status of Common Lines and shall keep the Participants informed accordingly, through the maintenance of the listing "The Status of Valid Common Lines" on the electronic bulletin board. Accordingly, the Secretariat, *inter alia*, shall issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.

d) Upon the request of a non-Participant that produces competing aircraft, the Secretariat shall make available valid Common Lines to that non-Participant.

SECTION 4: MATCHING

34. MATCHING

a) Taking into account a Participant's international obligations, a Participant may match financial terms and conditions of official support offered by a non-Participant.

b) In the event of matching non-conforming terms and conditions offered by a non-Participant:

1) The matching Participant shall make every effort to verify such terms and conditions.

2) The matching Participant shall inform the Secretariat and all other Participants of the nature and outcome of such efforts, as well as of the terms and conditions it intends to support, at least ten calendar days before issuing any commitment.

3) If a competing Participant requests a discussion during this ten calendar-day period, the matching Participant shall wait an additional ten calendar days before issuing any commitment on such terms.

c) If a matching Participant modifies or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

PART 5: MONITORING AND REVIEW

35. MONITORING

The Secretariat shall monitor the implementation of this Sector Understanding and report to the Participants on an annual basis.

36. REVIEW

The Participants shall review the procedures and provisions of this Sector Understanding, against the criteria, and at the times, set out in paragraphs a) and b) below.

a) The Participants shall undertake the review of this Sector Understanding as follows:

1) In calendar year 2019 and every fourth year thereafter, in each case with three months prior notice given by the Secretariat.

2) At the request of a Participant after due consultation, provided that three months prior notice has been given by the Secretariat and the requesting Participant provides a written explanation of the reason for, and objectives of, the review as well as a summary of the consultations preceding its request.

3) Modalities of update of minimum premium rates and minimum interest rates are set out in Appendices II and III respectively.

4) Fees set out in Article 16 shall be part of reviews.

b) The review set out in sub-paragraph a) 1) above shall consider:

1) The extent to which the purposes of this Sector Understanding, as set out in Article 1 above, have been achieved and any other issue a Participant may wish to bring forward for discussion.

2) In view of the elements in sub-paragraph b) 1) above, whether amendments to any aspect of this Sector Understanding are justified.

c) In recognition of the importance of the review process, to ensure that the terms and conditions of this Sector Understanding continue to meet the needs of the Participants, each Participant reserves the right to withdraw from this Sector Understanding in accordance with Article 40 below.

37. FUTURE WORK

Consideration will be given to:

a) Examining Participants' practices in providing official support before the starting point of credit.

b) The provisions applicable to indirect loans.

c) An extension of maximum repayments terms under Article 19 for used aircraft that have undergone significant refurbishment prior to sale.

d) An extension of maximum repayment terms under Article 21 for larger contract values.

e) The provisions applicable to "refurbishing" (Article 21) and "services" (Article 22).

f) The Cape Town eligibility process.

g) The definition of "Interested Participant".

PART 6: FINAL PROVISIONS

38. ENTRY INTO FORCE

The effective date of this Sector Understanding is 1 February 2011.

39. WITHDRAWAL

A Participant may withdraw from this Sector Understanding by notifying the Secretariat in writing by means of instant communication, *e.g.* electronic mail. The withdrawal takes effect six months after receipt of the notification by the Secretariat. Withdrawal will not affect agreements reached on individual transactions entered into prior to the effective date of the withdrawal.

APPENDIX I

PARTICIPATION IN THE AIRCRAFT SECTOR UNDERSTANDING

1. The Participants encourage non-Participants that are developing a manufacturing capacity for civil aircraft to apply the disciplines of this Sector Understanding. In this context the Participants invite non-Participants to enter into a dialogue with them regarding the conditions of joining the ASU.

2. The Secretariat should ensure that a non-Participant interested in participating in this Sector Understanding is provided with full information on the terms and conditions associated with becoming a Participant to this Sector Understanding.

3. The non-Participant would then be invited by the Participants to take part in the activities in pursuance of this Sector Understanding and to attend, as an observer, the relevant meetings. Such an invitation would be for a maximum of two years and could be renewed once for a further two years. During this period the non-Participant shall be invited to provide a review of its export credit system, especially for the export of civil aircraft.

4. At the end of that period, the non-Participant shall indicate whether it wishes to become a Participant in this Sector Understanding and to follow its disciplines; in the case of such confirmation, the non-Participant shall contribute, on an annual basis, to the costs associated with the implementation of this Sector Understanding.

5. The interested non-Participant shall be considered a Participant 30 working days after the confirmation referred to in Article 4 of this Appendix.

APPENDIX II

MINIMUM PREMIUM RATES

This Appendix sets out the procedures to be used when determining the pricing of official support for a transaction subject to this Sector Understanding. Section 1 sets out the risk classification procedures; Section 2 sets out the minimum premium rates to be charged for new and used aircraft, and Section 3 sets out the minimum premium rates to be charged for spare engines, spare parts, conversion/major modification/refurbishing, maintenance and service contracts, and engine kits.

SECTION 1: PROCEDURES FOR RISK CLASSIFICATION

1. The Participants have agreed on a list of risk classifications (the List) for buyers/borrowers; such risk classifications reflect the senior unsecured credit rating of buyers/borrowers using a common rating scale such as that of one of the credit rating agencies (CRA).

2. The risk classifications will be made by experts nominated by the Participants against the risk categories set out in Table 1 of this Appendix.

3. The List shall be binding at any stage of the transaction (*e.g.* campaign and delivery), subject to the provisions of Article 15 of this Appendix.

I. ESTABLISHMENT OF THE LIST OF RISK CLASSIFICATIONS

4. The List shall be developed and agreed among the Participants prior to the entry into force of this Sector Understanding; it shall be maintained by the Secretariat and made available to all the Participants on a confidential basis.

5. Upon request, the Secretariat may, on a confidential basis, inform an aircraft-producing non-Participant of the risk classification of a buyer/borrower; in this case, the Secretariat shall inform all Participants of the request. A non-Participant may, at any time, propose additions to the List to the Secretariat. A non-Participant proposing an addition to the List may participate in the risk-classification procedure as if it were an interested Participant.

II. UPDATE OF THE LIST OF RISK CLASSIFICATIONS

6. Subject to the provisions of Article 15 of this Appendix, the List may be updated on an *ad hoc* basis in the event that either a Participant signals, in any form, its intention to apply another risk classification than that on the List, or a Participant needs a risk classification for a buyer/borrower that is not yet on the List[1] [2].

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[1] An explanation shall be provided where the proposed risk-rating of a buyer/borrower exceeds the risk rating of the host sovereign.

[2] For transactions with an export contract value of less than USD 5 million, a Participant not wishing to follow the risk classification procedure set out in Articles 6 to 8 of this Appendix shall apply the risk classification "8" for the buyer/borrower which is the subject of the transaction and shall notify the transaction in accordance with Article 24 a) of this Sector Understanding.

7. Any Participant shall, before any use of an alternative or new risk classification, send a request to the Secretariat for updating the List on the basis of an alternative or new risk classification. The Secretariat will circulate this request to all Participants within two working days, without mentioning the identity of the Participant who submitted the request.

8. A period of ten[3] working days is allowed for interested Participants either to agree to or to challenge any proposed change to the List; a failure to respond within this period is considered as an agreement to the proposal. If at the end of the ten-day period, no challenge has been made to the proposal, the proposed change in the List is deemed to have been agreed. The Secretariat will modify the List accordingly and send a message *via* electronic mail within five working days; the revised List shall be binding from the date of that message.

III. RESOLUTION OF DISAGREEMENTS

9. In the event of a challenge to a proposed risk classification, interested Participants shall, at an expert level, make their best efforts to come to an agreement on the risk classification within a further period of ten working days after notification of a disagreement. All means necessary to resolve the disagreement should be explored, with the assistance of the Secretariat if necessary (*e.g.* conference calls or face-to-face consultations). If interested Participants agree to a risk classification within this ten working-day period, they shall inform the Secretariat of the outcome upon which the Secretariat will update the List accordingly and send a message *via* electronic mail in the following five working days. The adjusted List shall be binding from the date of that message.

[3] For transactions with an export contract value of less than USD 5 million, a five working-day period shall apply.

10. In case the disagreement is not resolved among the experts within ten working days, the issue will be referred to the Participants for decision on an appropriate risk classification, in a period that shall not exceed five working days.

11. In the absence of a final agreement, a Participant may have recourse to a CRA to determine the risk classification of the buyer/borrower. In such cases, the Chairman of the Participants shall address a communication on behalf of the Participants to the buyer/borrower, within ten working days. The communication shall include the terms of reference for the risk assessment consultation as agreed among the Participants. The resulting risk classification will be registered in the List and become binding immediately following the Secretariat's message to finalise the update procedure within five working days.

12. Unless otherwise agreed, the cost of such recourse to a CRA shall be borne by the interested buyer/borrower.

13. During the procedures set out in Articles 9 to 11 of this Appendix, the prevailing risk classification (when available on the List) shall remain applicable.

IV. VALIDITY PERIOD OF CLASSIFICATIONS

14. The valid risk classifications are the prevailing risk classifications as recorded in the List maintained by the Secretariat; indications and commitments of premium rates shall only be made in accordance with those risk classifications.

15. Risk classifications have a 12-month maximum validity period from the date recorded in the List by the Secretariat for the purpose of the Participants providing indication and final commitments of premium rates; the validity period for a specific transaction may be extended by an additional 18 months once a commitment or a final commitment has occurred and premium holding fees are charged. Risk classifications may be subject to revision during the 12-month validity period in case of material changes to the risk profile of the buyer/borrower, such as a modification of a rating delivered by a CRA.

16. Unless any Participant requests its update, at least 20 working days before the end of the relevant risk classification validity period, the Secretariat shall remove that risk classification from the next succeeding updated List. The Secretariat will circulate this update request to all Participants within two working days, without mentioning the identity of the Participant who submitted the request, and the procedures set out in Articles 9 to 11 of this Appendix shall apply.

V. BUYER/BORROWER RISK CLASSIFICATION REQUEST

17. If, at the campaign stage, a buyer/borrower requests an indication of its risk classification and if it is not yet on the List, that buyer/borrower may ask for an indicative risk classification from a CRA at its own expense. This risk classification shall not be included in the List; it may be used by the Participants as a basis for their own risk assessment.

SECTION 2: MINIMUM PREMIUM RATES FOR NEW AND USED AIRCRAFT

I. ESTABLISHMENT OF THE MINIMUM PREMIUM RATES

18. Articles 19 to 60 of this Appendix set out the minimum premium rates corresponding to the risk classification of a buyer/borrower (or, if a different entity, the primary source of repayment of the transaction).

19. The Participants may provide official support at or above the minimum premium rate provided that all the conditions below are fulfilled:

a) The transaction is asset-backed, meeting all of the following criteria:

1) A first priority security interest on or in connection with the aircraft and engines.

2) In the case of a lease structure, assignment and/or a first priority security interest in connection with the lease payments.

3) Cross default and cross collateralization of all aircraft and engines owned legally and beneficially by the same parties under the proposed financing, whenever possible under the applicable legal regime.

b) The transaction is structured to include, as a minimum, risk mitigants as set out in Table 1 below:

Table 1. Risk Mitigants

ASU Risk Category	Risk Ratings	Risk Mitigants	
		TOTAL	Of which at least "A"
1	AAA to BBB-	0	0
2	BB+ and BB	0	0
3	BB-	1	1
4	B+	2	1
5	B	2	1
6	B-	3	2
7	CCC	4	3
8	CC to C	4	3

20. For purposes of Article 19 of this Appendix:

a) The Participants may select from the following risk mitigants:

"A" risk mitigants:

1) Reduced advance rate: each reduction of five percentage points from the advance rates referred to in Articles 10 a) and b) of this Sector Understanding is equivalent to one "A" risk mitigant. In this case, the Participant shall not provide official support in any form in excess of the reduced advance rate.

2) Straight line amortisation: repayment of principal in equal instalments is equivalent to one risk mitigant.

3) Reduced repayment term: a repayment term that does not exceed ten years is equivalent to one risk mitigant, irrespective of the maximum repayment term allowed.

"B" risk mitigants:

1) Security deposit: each security deposit in an amount equal to one quarterly instalment of principal and interest is equivalent to one risk mitigant. The security deposit can be in the form of cash or a standby letter of credit.

2) Lease payments in advance: lease payments in an amount equal to one quarterly instalment of principal and interest shall be paid one quarter in advance of each repayment date.

3) Maintenance reserves in a form and amount reflective of market best practices.

b) Subject to a prior notification, up to one of the "A" risk-mitigants may be replaced by a 15% surcharge on the applicable minimum premium rate.

21. Minimum premium rates to be applied to a transaction can be set prior to delivery, either at commitment, final commitment or otherwise at the commencement of a premium holding period with a defined duration. Final upfront premium rate, per annum spread, or a combination thereof to be applied to the transaction will comply with the minimum premium rate so established as well as mandatory risk mitigants prescribed in Article 19 b) of this Appendix as of the date on which the minimum premium rates were set. Such terms shall apply for the full length of the premium holding period and may only be revised following the expiry of that period, at which time the minimum premium rates and mandatory risk mitigants prescribed by the ASU then in force will apply and may be set for a subsequent premium holding period.

22. Pursuant to Article 11 of this Sector Understanding, the minimum premium rates to be applied are composed of minimum risk-based rates (RBR) to which a market reflective surcharge (MRS) shall be added, in accordance with Articles 23 to 35 below.

23. As of the entry into force of this Sector Understanding, the RBRs are:

Table 2. Risk-based rates

ASU Risk Category	Spreads (bps)	Upfront (%)
1	89	4.98
2	98	5.49
3	116	6.52
4	133	7.49
5	151	8.53
6	168	9.51
7	185	10.50
8	194	11.03

24. The RBRs rates shall be reset on an annual basis, based on 4-year moving average of the annual Moody´s Loss Given Default (LGD). The appropriate LGD for this reset is based on the 1st Lien Senior Secured Bank Loans, and shall be calculated as follows:

Table 3

LGD Mapping	
4-year Moving Average	**LGD Considered**
>=45%	25%
>='35%' < 45%	23%
>='30%' < 35%	21%
< 30%	19%

25. A RBR adjustment factor shall be determined as follows:

$$\frac{\text{LGD Considered}}{19\%} = \text{RBR adjustment factor}$$

26. The RBR adjustment factor shall be multiplied by the RBRs set out in Table 2 above, in order to determine the reset RBRs.

27. The RBRs resulting from the reset processes listed above will be effective as of 15 April of each following year. Once the RBRs resulting from the annual reset have been determined, the Secretariat shall inform immediately all Participants of the applicable rates and make them publicly available.

28. For each risk category, a Market Reflective Surcharge shall be calculated as follows:

MRS = B*[(0.5*MCS)-RBR]

where:

- B is a blend coefficient varying from 0.7 to 0.35 according to each risk category as per Table 4 below.
- MCS is a 90-day moving average of Moody's Median Credit Spreads (MCS) with an average life of 7 years.

29. Where risk categories include more than one risk rating, the spreads shall be averaged. In risk category 1, the BBB- spread shall be used.

30. The MCS spreads shall be discounted by 50% to account for the asset-security. The MCS discounted spreads shall then be adjusted by a blend factor ranging from 70% to 35% as per Table 4 below, applied on the difference between the MCS discounted spreads and the RBR. Any negative spreads resulting from the blending shall not be deducted.

Table 4. Blend factors

Risk-Ratings	ASU Risk Category	Blend Factor (%)
AAA	1	70
AA	1	70
A	1	70
BBB+	1	70
BBB	1	70
BBB-	1	70
BB+	2	65
BB	2	65
BB-	3	50
B+	4	45
B	5	40
B-	6	35
CCC	7	35
CC	8	35
C	8	35

31. The MRS shall be updated on a quarterly basis and the resulting MCS shall become effective respectively on 15 January, 15 April, 15 July and 15 October of each year. Following each update, the Secretariat shall inform immediately all Participants of the applicable MRS and the resulting minimum rates and make them available to Participants prior to the date these rates become effective.

32. The increase in minimum premium rates resulting from the MRS update shall be capped at 10% of the previous quarterly minimum premium rates. Therefore, the minimum premium rates (which result from adding the RBRs and the MRS) shall be capped at 200% of the RBRs and floored at 100% of the RBRs.

33. The premium rates resulting from the application of Article 32 for risk categories 2-8 shall be adjusted, if necessary, to ensure that the premium rate for each risk category is no lower than the premium rate for the risk category that immediately precedes it (*i.e.* the premium rate for category "x" that is lower than the premium rate for category "x-1" will be adjusted upwards to the level of the premium rate for category "x-1").

34. In order to determine the minimum premium rates:

- The following formula shall be used:

  Net MPR = MPR*(1+RTAS)*(1+RFAS)*(1+RMRS)*(1-CTCD)*(1+NABS) - CICD

  Where:

  - RTAS represents the repayment term adjustment surcharge set out in Article 12 b) of this Sector Understanding.
  - RFAS represents the repayment frequency adjustment surcharge set out in Articles 13 a) 1) and 2) of this Sector Understanding.
  - RMRS represents the risk mitigant replacement surcharge set out in Article 20 b) of this Appendix.

- CTCD represents the Cape Town Convention Discount set out in Article 38 of this Appendix.
- NABS represents the non-asset-backed surcharge set out in Articles 57 a) 4), 57 b) and 59 b) of this Appendix, as applicable.
- CICD represents the conditional insurance coverage discount set out in Article 56 a) of this Appendix.

– Premium may be paid either upfront or, over the life of the facility, as spreads expressed in basis points per annum, or in any combination of upfront rates and spreads. The upfront rates and spreads shall be calculated using the premium rate conversion model (PCM) so that the premium payable for a given transaction has the same NPV whether payable upfront, as a spread over the life of the facility, or a combination thereof. In transactions where, prior to the commencement of cover, terms are agreed or stipulated, which entail a reduction in the weighted average life, an upfront rate (calculated using the PCM) may be charged, which in terms of the resulting premium payable, corresponds to that payable in NPV terms under the spreads.

35. The applicable minimum premium rates are published on the OECD website, using the format set out in Table 5 below.

Table 5. Minimum premium rates

(12-year repayment term, asset-backed transactions)

Risk category	Risk classification	Minimum premium rates	
		Per annum spreads (bps)	Up-front (%)
1	AAA to BBB-		
2	BB+ and BB		
3	BB-		
4	B+		
5	B		
6	B-		
7	CCC		
8	CC to C		

II. REDUCTIONS OF THE MINIMUM PREMIUM

36. Subject to the provisions of Article 37 of this Appendix, a reduction of the minimum premium rates established in accordance with sub-Section I above shall be allowed if:

a) The asset-backed transaction relates to an aircraft object within the meaning of the Cape Town Protocol on Matters Specific to Aircraft Equipment,

b) The operator of the aircraft object (and, if different, the borrower/buyer or lessor if, in the view of the Participant providing the official support, the structure of the transaction so warrants) is situated in a State which, at the time of disbursement in respect of the aircraft object, appears on the list of States which qualify for the reduction of the minimum premium rates ("Cape Town List"), and where applicable, in a territorial unit of that State that qualifies under Article 39 of this Appendix, and

c) The transaction relates to an aircraft object registered on the International Registry established pursuant to the Cape Town Convention, and the Aircraft Protocol thereto (Cape Town Convention or CTC).

37. The reduction of the minimum premium rates established in accordance with sub-Section I above shall not exceed 10% of the applicable minimum premium rate.

38. In order to be included on the Cape Town List, a State shall:

a) Be a Contracting Party to the Cape Town Convention;

b) Have made the qualifying declarations set out in Annex I to this Appendix; and

c) Have implemented the Cape Town Convention, including the qualifying declarations, in its laws and regulations, as required, in such a way that the Cape Town Convention commitments are appropriately translated into national law.

39. To qualify under Article 36 of this Appendix, a territorial unit shall:

a) Be a territorial unit to which the Cape Town Convention has been extended;

b) Be a territorial unit in respect of which the qualifying declarations set out in Annex I to this Appendix apply; and

c) Have implemented the Cape Town Convention, including the qualifying declarations, in its laws and regulations, as required, in such a way that the Cape Town Convention commitments are appropriately translated into national law.

40. An initial agreed Cape Town List shall be provided by the Participants to the Secretariat prior to the entry into force of this Sector Understanding. Updates to the Cape Town List shall be made in accordance with Articles 41 to 53 of this Appendix.

41. Any Participant or non-Participant that provides official support for aircraft may propose to the Secretariat the addition of a State to the Cape Town List. Such proposal shall include, with respect to such State:

a) All the relevant information in respect of the date of deposit of the Cape Town Convention ratification or accession instruments with the Depositary;

b) A copy of the declarations made by the State which is proposed to be added to the Cape Town List;

c) All relevant information in respect of the date on which the Cape Town Convention and the qualifying declarations have entered into force;

d) An analysis which outlines the steps that the State which is proposed to be added to the Cape Town List has taken to implement the Cape Town Convention including the qualifying declarations in its laws and regulations, as required to ensure that the Cape Town Convention commitments are appropriately translated into national law; and

e) A duly completed questionnaire, the form of which is attached at Annex 2 of this Appendix ("CTC Questionnaire") completed by at least one law firm qualified to give legal advice in relation to the relevant jurisdiction of the State which is proposed to be added to the Cape Town List. The completed CTC Questionnaire shall specify:

i) The name(s) and office address(es) of the responding law firm(s);

ii) The law firm's relevant experience, which could include experience in legislative and constitutional processes as they relate to the implementation of international treaties in the State, and specific experience in CTC related issues including any experience in advising either a government on implementation and enforcement of the Cape Town Convention or the private sector, or enforcement of creditor's rights in the State which is proposed to be added to the Cape Town List;

iii) Whether the law firm is involved or intends to be involved in any transactions that may benefit from a reduction of minimum premium rates if the proposed State is added to the CTC list[4]; and

iv) The date on which the CTC Questionnaire has been completed.

[4] Together with information regarding any involvement (provided with due respect for confidentiality duties).

42. The Secretariat shall circulate a message *via* electronic mail within five working days containing the proposal.

43. Any Participant or non-Participant which provides official support for aircraft may propose that a State be removed from the Cape Town List if they are of the view that such State has taken actions that are inconsistent with, or failed to take actions that are required by virtue of, that State's Cape Town Convention commitments. To that end, the Participant or non-Participant shall include in a proposal for removal from the Cape Town List, a full description of the circumstances that have given rise to the proposal for deletion, such as any State actions that are inconsistent with its Cape Town Convention commitments, or any failure to maintain or enforce legislation required by virtue of that State's Cape Town Convention commitments. The Participant or non-Participant who submits the proposal for removal from the Cape Town List shall provide any supporting documentation that may be available, and the Secretariat shall circulate a message *via* electronic mail within five working days containing such proposal.

44. Any Participant or non-Participant which provides official support for aircraft may propose the reinstatement of a State that has been previously removed from the Cape Town List, where such reinstatement is justified by subsequent corrective actions or events. Such a proposal shall be accompanied by a description of the circumstances that gave rise to the removal of the State as well as a report of the subsequent corrective actions in support of reinstatement. The Secretariat shall circulate a message *via* electronic mail within five working days containing such proposal.

45. The Participants may either agree to or challenge a proposal brought forward under Articles 41 to 44 of this Appendix within 20 working days from the date of submission of the proposal ("Period 1").

46. If at the end of Period 1, and in the case of Article 43 of this Appendix unless the proposal has been withdrawn by the proposing Participant or non-Participant providing evidence of corrective actions or events, no challenge has been made to the proposal, the proposed update to the Cape Town List is deemed to have been accepted by all Participants. The Secretariat will modify the Cape Town List accordingly and send a message *via* electronic mail within five working days. The updated Cape Town List shall take effect on the date of that message.

47. In the event of a challenge to the proposed update of the Cape Town List, the challenging Participant or Participants shall, within Period 1, provide a written explanation of the basis of the challenge. Following circulation by the OECD Secretariat to all Participants of the written challenge, the Participants shall make best efforts to come to an agreement within a further ten-working day period ("Period 2").

48. The Participants shall inform the Secretariat of the outcome of their discussions. If an agreement is reached during Period 2, the Secretariat will, if necessary, update the Cape Town List accordingly and send a message *via* electronic mail in the following five working days. The updated Cape Town List shall take effect on the date of that message.

49. If no agreement is reached during Period 2, the Chairman of the Participants to this Sector Understanding (hereafter “the Chairman”) will make her/his best efforts to facilitate a consensus between the Participants, within 20 working days (“Period 3”) immediately following Period 2. If at the end of Period 3, no consensus is reached, a final resolution shall be achieved through the following procedures:

a) The Chairman shall make a written recommendation with respect to the proposed update of the Cape Town List. The Chairman’s recommendation shall reflect the majority view emerging from the views openly expressed by at least the Participants that provide official support for aircraft exports. In the absence of a majority view, the Chairman shall make a recommendation based exclusively on the views expressed by the Participants and shall set out in writing the basis for the recommendation, including in the case of ineligibility, the eligibility criteria that were not met.

b) The Chairman’s recommendation shall not disclose any information relating to Participants’ views or positions expressed in the context of the process set out in Articles 41 to 50 of this Appendix, and

c) The Participants shall accept the recommendation of the Chairman.

50. If, following a proposal submitted under Article 41 of this Appendix, the Participants or Chairman has determined that a State is not eligible to be added to the Cape Town List, a Participant or non-Participant may submit another proposal requesting that the Participants reconsider the State’s eligibility. The proposing Participant or non-Participant shall address the reasons substantiating the original determination of ineligibility. The proposing Participant or non-Participant shall also obtain and provide an updated CTC questionnaire. This new proposal shall be subject to the process set out in Articles 45 to 51 of this Appendix.

51. In the event of any change to the list of qualified countries pursuant to the procedures set out in Article 49 of this Appendix, the Secretariat shall issue a message *via* electronic mail containing the updated Cape Town List within five working days of such change. The updated Cape Town List shall take effect on the date of that message.

52. The addition, withdrawal or reinstatement of a State to the Cape Town List after disbursement in respect of an aircraft shall not affect MPRs established regarding such aircraft.

53. In the context of the process set out in Articles 41 to 51 of this Appendix, the Participants shall not disclose any information relating to views or positions expressed.

54. The Participants shall monitor the implementation of Articles 41 to 53 of this Appendix and review it annually or upon the request of any Participant.

55. For new and used aircraft, the following adjustments to the applicable minimum premium rates may be applied:

a) A discount of five basis points (*per annum* spreads) or 0.29% (up-front) to the applicable minimum premium rates may be applied for officially supported transactions in the form of conditional insurance cover.

b) The minimum premium rates shall be applied on the covered principal amount.

III. NON ASSET-BACKED TRANSACTIONS

56. Notwithstanding the provisions of Article 19 a) of this Appendix, the Participants may provide officially supported export credits for non-asset backed transactions, provided either of the following conditions is fulfilled:

a) In the case of non-sovereign transactions:

1) The maximum value of the export contract receiving official support is USD 15 million.

2) The maximum repayment term shall be 10 years,

3) No third party has a security interest in the assets being financed, and

4) A minimum surcharge of 30% shall be applied to the minimum premium rates established in accordance with sub-Section I above.

b) In the case of a transaction with a sovereign or backed by an irrevocable and unconditional sovereign guarantee, a minimum surcharge shall, in accordance with Table 6 below, be applied to the minimum premium rates set out in accordance with sub-Section I above.

Table 6

Risk Category	Surcharge (%)
1	0
2	0
3	0
4	10
5	15
6	15
7	25
8	25

57. The provisions of Articles 36 to 52 of this Appendix do not apply to officially supported export credits provided pursuant to Article 56 of this Appendix.

SECTION 3: MINIMUM PREMIUM RATES FOR GOODS AND SERVICES OTHER THAN USED AIRCRAFT COVERED BY PART 3 OF THIS SECTOR UNDERSTANDING

58. When providing official support for all goods and services other than used aircraft covered by Part 3 of this Sector Understanding, the minimum premium rates shall be as follows:

a) In the case of asset-backed transactions, the minimum premium rates shall be equal to the prevailing minimum spreads established in accordance with sub-Section I above and, in the case of pure cover, converted to upfront fees using the conversion model and the appropriate tenor.

b) In the case of non asset-backed transactions, the minimum premium rates shall be equal to the prevailing minimum spreads established in accordance with sub-Section I above to which a surcharge of 30% will be added, and, in the case of pure cover, converted to upfront fees using the conversion model and the appropriate tenor.

59. The provisions of Articles 36 to 52 of this Appendix shall apply to official support for asset backed spare engines covered by Article 20 a) and c) of this Sector Understanding and support under the first *tiret* of Article 21 a) 1) of this Sector Understanding.

60. The provision of Article 55 of this Appendix shall also apply to official support for all goods and services other than used aircraft covered by Part 3 of this Sector Understanding.

ANNEX 1: QUALIFYING DECLARATIONS

1. For the purpose of Section 2 of Appendix II, the term “qualifying declarations”, and all other references thereto in this Sector Understanding, means that a Contracting party to the Cape Town Convention (Contracting Party):

a) Has made the declarations in Article 2 of this Annex, and

b) Has not made the declarations in Article 3 of this Annex.

2. The declarations for the purpose of Article 1 a) of this Annex are:

a) Insolvency: State Party declares that it will apply the entirety of Alternative A under Article XI of the Aircraft Protocol to all types of insolvency proceeding and that the waiting period for the purposes of Article XI (3) of that Alternative shall be no more than 60 calendar days.

b) Deregistration: State Party declares that it will apply Article XIII of the Aircraft Protocol.

c) Choice of Law: State Party declares that it will apply Article VIII of the Aircraft Protocol.

And at least one of the following (though both are encouraged):

d) Method for Exercising Remedies: State Party declares under Convention Article 54 (2) that any remedies available to the creditor under any provision of the Convention which are not expressed under the relevant provisions thereof to require application to a court may be exercised without leave of the court (the insertion “without court action and” to be recommended (but not required) before the words “leave of the court”);

e) Timely Remedies: State Party declares that it will apply Article X of the Aircraft Protocol in its entirety (though clause 5 thereof, which is to be encouraged, is not required) and that the number of working days to be used for the purposes of the time-limit laid down in Article X (2) of the Aircraft Protocol shall be in respect of:

1) The remedies specified in Articles 13 (1) (a), (b) and (c) of the Convention (preservation of the aircraft objects and their value; possession, control or custody of the aircraft objects; and immobilisation of the aircraft objects), not more than that equal to ten calendar days, and

2) The remedies specified in Articles 13 (1) (d) and (e) of the Convention (lease or management of the aircraft objects and the income thereof and sale and application of proceeds from the aircraft equipment), not more than that equal to 30 calendar days.

3. The declarations referred to in Article 1 b) of this Annex are the following:

a) Relief Pending Final Determination: State Party shall not have made a declaration under Article 55 of the Convention opting out of Article 13 or Article 43 of the Convention; provided, however, that, if State Party made the declarations set out under Article 2 d) of this Annex, the making of a declaration under Article 55 of the Convention shall not prevent application of the Cape Town Convention discount.

b) Rome Convention: State Party shall not have made a declaration under Article XXXII of the Aircraft Protocol opting out of Article XXIV of the Aircraft Protocol; and

c) Lease Remedy: State Party shall not have made a declaration under Article 54 (1) of the Convention preventing lease as a remedy.

4. Regarding Article XI of the Aircraft Protocol, for Member States of the European Union, the qualifying declaration set out in Article 2 a) of this Annex shall be deemed made by a Member State, for purposes hereof, if the national law of such Member State was amended to reflect the terms of Alternative A under Article XI of the Aircraft Protocol (with a maximum 60 calendar days waiting period). As regards the qualifying declarations set out in Articles 2 c) and e) of this Annex, these shall be deemed satisfied, for the purpose of this Sector Understanding, if the laws of the European Union or the relevant Member States are substantially similar to that set out in such Articles of this Annex. In the case of Article 2 c) of this Annex, the laws of the European Union (EC Regulation 593/2008 on the Law Applicable to Contractual Obligations) are agreed to be substantially similar to Article VIII of the Aircraft Protocol.

ANNEX 2: CAPE TOWN CONVENTION QUESTIONNAIRE

I. Preliminary Information

Please provide the following information:

1. The name and full address of the law firm completing the questionnaire.

2. The law firm's relevant experience, which could include experience in legislative and constitutional processes as they relate to the implementation of international treaties in the State, and specific experience in CTC related issues including any experience in advising either a government on implementation and enforcement of the Cape Town Convention or the private sector, or enforcement of creditor's rights in the State which is proposed to be added to the Cape Town List.

3. Whether the law firm is involved or intends to be involved in any transactions that may benefit from a reduction of minimum premium rates if the proposed State is added to the CTC list.[1]

4. The date on which this questionnaire was completed.

[1] Together with information regarding any involvement (provided with due respect for confidentiality duties).

II. Questions

1. Qualifying declarations

1.1 Has the State[2] made each of the qualifying declarations in accordance with the requirements of Annex 1 to Appendix II of the Sector Understanding on Export Credits for Civil Aircraft ("ASU") (each a "Qualifying Declaration")? In particular, regarding the declarations concerning "Method for Exercising Remedies" [Article 2 d)] and "Timely Remedies" [Article 2 e)], please specify if one or both of these have been made.

1.2 Please describe the way in which the declarations made differ, if at all, from the requirements referred to in Question 1.1.

1.3 Please confirm that the State has not made any of the declarations listed in Article 3 of Annex 1 to Appendix II of the ASU.

2. Ratification

1.1 Has the State ratified, accepted, approved or acceded to the Cape Town Convention and Aircraft Protocol ("Convention")? Please could you state the date of ratification/accession and briefly describe the State's process of accession to or ratification of the Convention?

[2] For the purposes of this questionnaire the "State" is the country that is being proposed for addition to the Cape Town Convention List under Appendix II, Section 2 II of the ASU. Where appropriate, these questions shall also be answered in respect of the laws of the particular "territorial unit" of the State in which the relevant operator of an aircraft [or other relevant body as set out in Article 35 (b) Appendix II] is located and "national law" shall be read as including a reference to the relevant local law.

1.2 Do the Convention and Qualifying Declarations (“QD”) made have the force of law in the whole territory of the State without any further act, implementing legislation or the passing of any further law or regulation?

1.3 If so, please briefly explain the process that gives the Convention and QDs the force of law.

3. Effect of national and local law

1.1 Describe and list, if applicable, the implementing legislation and regulation(s) with respect to the Convention and each QD made by the State.

1.2 Would the Convention and QDs made, as translated into national law[3] (“Convention and QDs”), overrule or have priority over any conflicting national law, regulation, order, judicial precedent or regulatory practice. If so, please describe the process by which this happens,[4] and if not, please provide details.

[3] For the purposes of this questionnaire, 'national law' refers to all national legislation of a State, including but not limited to, the Constitution and its Amendments, any federal, state and district law or regulation.

[4] For example, that (i) treaties prevail over other law as a matter of constitutional or similar framework law in State X, or (ii) legislation is required in State X, and has been enacted expressly setting out the priority of the Cape Town Treaty and /or superseding such other law, or (iii) the Cape Town Treaty or its implementing legislation is (a) more specific than other law (*lex specialis derogat legi generali*), and/or (b) later in time than such other law (*lex posterior derogat legi priori*), and as a result of (a) and/or (b) prevails over such other law.

1.3 Are there any existing gaps in the implementation of the Convention and QDs? If so, please describe.[5]

4. ***Court and administrative decisions***

1.1. Please describe any matters, including judicial, regulatory, or administrative practice which could be expected to result in the courts, authorities or administrative bodies failing to give full force and effect to the Convention and QDs.[6,7]

1.2. To your knowledge, has there been any judicial or administrative enforcement action taken by a creditor under the Convention? If so, please describe the action and indicate whether it was successful.

1.3. To your knowledge, since ratification/implementation, have the courts in that State refused in any instance to enforce loan obligations of a debtor or guarantor in the State contrary to the Convention and QDs?

1.4. To your knowledge, are there any other matters that may impact whether courts and administrative bodies should be expected to act in a manner consistent with the Convention and QDs? If so, please specify.

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[5] For example, is there any reason why the rights and remedies granted to creditors under the Convention, including those granted under the QDs, would not (a) be recognised as being effective or (b) be sufficient by themselves, to enable such rights and remedies to be validly exercised in the State?

[6] An example of an administrative action for the purposes of this question might be the failure by the State to put in place any procedures or resources to give effect to a provision of the Convention or a Qualifying Declaration. Another example would be the failure by a State to put in place proper procedures in its aircraft registry for recording IDERAs.

[7] Please include in your analysis any precedent / decision relating to the recognition of rights of creditors, including ECAs, when relevant.

APPENDIX III

MINIMUM INTEREST RATES

The provision of official financing support shall not offset or compensate, in part or in full, for the appropriate premium rate to be charged for the risk of non-repayment pursuant to the provisions of Appendix II.

1. MINIMUM FLOATING INTEREST RATE

a) The minimum floating interest rate shall be, as appropriate for the currency, the EURIBOR, the Bank Bill Swap Rate, i.e. BBSY, the Canadian Dealer Offered Rate (CDOR) or the relevant risk free rate (RFR) for the currency, including term RFRs, as specified by the currency's benchmark administrator (the 'floating benchmark rate'). For certainty, for US dollars, the floating benchmark rate shall be the Secured Overnight Financing Rate (SOFR). Where the floating benchmark rate is an overnight rate, it shall be compounded daily during each interest period using generally accepted market conventions. Where the floating benchmark rate is a term rate, it shall be the rate effective two business days prior to each interest period, with the maturity that corresponds to the frequency of interest payment of the officially supported export credit. A margin benchmark calculated in accordance with Article 8 of this Appendix, shall be added to the floating benchmark rate.

b) When the repayment of principal and the payment of interest are combined in equal instalments, a rate based on either the swap rate or the term floating benchmark rate effective two business days prior to the loan drawdown date, shall be used to calculate the entire payment schedule, as if it were a fixed rate, and the principal payment schedule shall then be fixed**.**

c) Where official financing support is provided for floating rate loans, buyers/borrowers may have the option to switch from a floating rate to a fixed rate provided that the following conditions are fulfilled:

1) The option is restricted to switching to the swap rate only;[1]

2) The option to switch shall only be exercised upon request, only once, and shall be reported accordingly with a reference to the reporting form initially sent to the Secretariat pursuant to Article 24 of this Understanding.

2. MINIMUM FIXED INTEREST RATE

The minimum fixed interest rate shall be either:

a) The swap rate, concerning the relevant currency of the officially supported export credit and with a maturity equal to the interpolated rate for the two closest available annual periods to the weighted average life of the loan. The interest rate shall be set two business days prior to each drawdown date.

[1] It being understood that when swapping from a LIBOR based floating rate loan to a SOFR based swap rate loan, the credit adjusted spread, as found on the SOFR Libor Basis curve, based on the weighted average life and currency of the loan, shall be added to the swap rate. (For USD on Bloomberg the SOFR Libor Basis curve is found on page IRSB46)

OR

b) The Commercial Interest Reference Rate (CIRR) established according to the provisions set out in Articles 3 to 7 of this Appendix,

to which, in both cases, the margin benchmark, calculated in accordance with Article 8 f) of this Appendix, shall be added.

3. CONSTRUCTION OF CIRR

a) A CIRR shall be published for the euro, the Japanese yen, the UK pound sterling, the US dollar and, pending the submission of a request by an Interested Participant, any of the eligible currencies set out in Article 9 of this Sector Understanding and calculated by adding a fixed margin of 120 basis points to one of the following three yields (the base rates):

1) Five-year government bond yields for a repayment term up to and including nine years,

2) Seven-year government bond yields for over nine and up to and including 12 years, or

3) Nine-year government bond yields for over 12 and up to and including 15 years.

b) CIRR shall be calculated monthly using data from the previous month and notified to the Secretariat, no later than five days after the end of each month. The Secretariat shall then inform immediately all Participants of the applicable rates and make them publicly available. CIRR shall take effect on the 15th day of each month.

c) A Participant or a non-Participant may request that a CIRR be established for the currency of a non-Participant. In consultation with the non-Participant, a Participant or the Secretariat on behalf of that non-Participant may make a proposal for the construction of the CIRR in that currency using the Common Line procedures set out in Articles 28 to 33 of this Sector Understanding.

4. VALIDITY PERIOD OF CIRR

a) Holding the CIRR: the CIRR applying to a transaction shall not be held for a period longer than six months from its selection (export contract date or any application date thereafter) to the credit agreement date. If the credit agreement is not signed within that limit, and the CIRR is reset for an additional six months, the new CIRR shall be committed at the rate prevailing at the date of reset.

b) After the credit agreement date, the CIRR shall be applied for drawing periods that do not exceed six months. After the first six-month drawing period, the CIRR is reset for the next six months; the new CIRR shall be the one prevailing at the first day of the new six-month period and cannot be lower than the CIRR originally selected (procedure to be replicated for each subsequent six-month period of drawings).

5. APPLICATION OF MINIMUM INTEREST RATES

Within the provisions of the credit agreement the borrower shall not be allowed an option to switch from an officially supported floating rate financing to a pre-selected CIRR financing, nor be allowed to switch between a pre-selected CIRR and the short term market rate quoted on any interest payment date throughout the life of the loan.

6. EARLY REPAYMENT OF FIXED INTEREST RATE LOANS

In the event of a voluntary, early repayment of a fixed interest rate loan as determined in Article 2 of this Appendix, or any portion thereof or when the CIRR applied under the credit agreement is modified into a floating or a swap rate, the borrower shall compensate the institution providing official financing support for all costs and losses incurred as a result of such actions, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

7. IMMEDIATE CHANGES IN INTEREST RATES

When market developments require the notification of an amendment to a CIRR during the course of a month, the amended rate shall be implemented ten working days after notification of this amendment has been received by the Secretariat.

8. MARGIN BENCHMARK

a) A SOFR margin benchmark shall be calculated monthly in accordance with paragraph b), using data notified to the Secretariat in accordance with paragraph c), and shall take effect on the 15th day of each month. Once calculated, the margin benchmark shall be notified by the Secretariat to the Participants and shall be made publicly available.

b) The SOFR margin benchmark shall be a rate equivalent to the average of the lowest 50% of the margins over: (i) SOFR (either the daily compounded SOFR calculated on a 3-month frequency or a 3-month term SOFR, as appropriate) charged for floating rate transactions and (ii) SOFR (either the daily compounded SOFR calculated on a 3-month frequency or a 3-month term SOFR, as appropriate) as interpolated by swapping the fixed rate issuance to a floating rate equivalent charged for fixed rate transactions or capital market issuances. In either case, the margins included in the monthly benchmark reports submitted by relevant Participants shall be those from the three full calendar months preceding the effective date set out in paragraph a) above. Transactions / issuances that are used in the calculation of the margin benchmark shall meet the following conditions:

1) 100% unconditional guarantee transactions denominated in US dollars; and

2) Official support provided in respect of aircraft valued at or above USD 35 million (or its equivalent in any other eligible currency).

c) Participants shall report a margin at the time it becomes known and that margin will remain on the Participant's margin benchmark report for three full calendar months. In the case of individual transactions with multiple pricing events, there shall be no attempt to match subsequent pricing events to ex post notifications.

d) Participants shall notify transactions as of the date on which the long-term margin is realised. For bank mandated deals (including PEFCO), the date on which the margin is realised would be the earliest of the following: (i) issuance of a final commitment by the Participant, (ii) setting of the margin post-commitment, (iii) loan drawdown, and (iv) setting of the long-term margin post drawdown. In the case of several drawdowns occurring under the same bank mandate at the same margin, notification shall only be made in respect of the first aircraft. For loans funded by way of capital market issuance, the date on which the margin is realised shall be the date on which the long term rate is set which is typically the bond issuance date. In the case of several drawdowns occurring under the same bond and at the same margin, notification shall only be made in respect of the first aircraft.

e) SOFR margin benchmark shall be applicable to a floating rate transaction and shall be set no earlier than the date of the final commitment and held for the duration of the final commitment.

f) For a fixed rate transaction, the margin benchmark applicable to the transaction shall be determined by swapping the SOFR margin benchmark into an equivalent spread over the applicable fixed rate, as determined in Article 2 of this Appendix, and be set no earlier than the final commitment date and held for the duration of the final commitment.

g) For the period from February 15, 2022 to July 14, 2022, the margin benchmark shall be set at 30 basis points plus a credit adjusted spread of 26 basis points[2] (the 'transitional margin benchmark'), for a total of 56 basis points, unless a SOFR margin benchmark can be calculated in accordance with paragraph b) prior to July 14, 2022.

h) The Participants shall monitor the margin benchmark and shall review the margin benchmark mechanism upon the request of any Participant.

[2] Based on the Historical Credit Adjustment published by Bloomberg on March 5, 2021 for USD 3 months YUS0003M Index at 0.26161

APPENDIX IV

REPORTING FORM

a) Basic Information

1. Notifying country

2. Notification date

3. Name of notifying authority/agency

4. Identification number

b) Buyer/Borrower/Guarantor Information

5. Name and country of buyer

6. Name and country of borrower

7. Name and country of guarantor

8. Status of buyer/borrower/guarantor, *e.g.* sovereign, private bank, other private

9. Risk classification of buyer/borrower/guarantor

c) Financial Terms and Conditions

10. In what form is official support provided, *e.g.* pure cover, official financing support

11. If official financing support is provided, is it a direct credit/refinancing/interest rate support

12. Description of the transaction supported, including the manufacturer, aircraft model and number of aircraft.

13. Final commitment date

14. Currency of credit

15. Credit amount, according to the following scale in USD millions:

Category	Credit Amount
I	0-200
II	200-400
III	400-600
IV	600-900
V	900-1200
VI	1200-1500
VII	1500-2000*

* *Indicate the number of USD 300 million multiples in excess of USD 2 000 million.*

16. Percentage of official support

17. Repayment term

18. Repayment profile and frequency – including, where appropriate, weighted average life

19. Length of time between the starting point of credit and the first repayment of principal

20. Interest rates:

- Minimum interest rate applied

- Margin benchmark applied

21. Total premium charged by way of:

- Up-front fees (in percentage of the credit amount) or

- Spreads (basis points per annum above the applied interest rate)

- As appropriate, please indicate separately the 15% surcharge applied in accordance with Appendix II Article 20 b).

22. In the case of direct credit/financing, fees charged by way of:

- Arrangement/Structuring fee

- Commitment/Premium holding fee

- Administration fee

23. Premium holding period

24. In the case of pure cover, premium holding fees

25. Transaction structuring terms: risk mitigants / premium surcharge applied

26. As appropriate, an indication of the impact of the Cape Town Convention on the premium rate applied

APPENDIX V

LIST OF DEFINITIONS

All-In Cost Equivalence: the net present value of premium rates, interest rate costs and fees charged for a direct credit as a percentage of the direct credit amount is equal to the net present value of the sum of premium rates, interest rate costs and fees charged under pure cover as a percentage of the credit amount under pure cover.

Asset-Backed: a transaction that meets the conditions set out in Article 19 a) of Appendix II.

Buyer/Borrower: includes (but is not limited to) commercial entities such as airlines and lessors, as well as sovereign entities (or if a different entity, the primary source of repayment of the transaction).

Buyer Furnished Equipment: equipment furnished by the buyer and incorporated in the aircraft during the manufacture/refurbishment process, on or before delivery, as evidenced by the Bill of Sale from the manufacturer.

Cape Town Convention: refers to the Cape Town Convention on International Interests in Mobile Equipment and the Protocol thereto on Matters specific to Aircraft Equipment.

Commitment: any statement, in whatever form, whereby the willingness or intention to provide official support is communicated to the recipient country, the buyer, the borrower, the exporter or the financial institution, including without limitation, eligibility letters, marketing letters.

Common Line: agreement of the Participants for a given transaction, or in special circumstances on specific financial terms and conditions for official support; such common line shall prevail over the relevant provisions of this Sector Understanding only for the transaction or in the circumstances specified in the common line.

Conditional Insurance Cover: official support, which in the case of a default on payment for defined risks provides indemnification to the beneficiary after a specified waiting period; during the waiting period the beneficiary does not have the right to payment from the Participant. Payment under conditional insurance cover is subject to the validity and the exceptions of the underlying documentation and of the underlying transaction.

Conversion: A major change in the type design of an aircraft through its conversion into a different type of aircraft (including the conversion of a passenger aircraft into a water bomber, cargo aircraft, search and rescue, surveillance aircraft, or business jet), subject to certification by the responsible Civil Aviation Authority.

Country Risk Classification: the prevailing country risk classification of the Participants to the Arrangement on Officially Supported Export Credits as published on the OECD website.

Credit Rating Agency: one of the internationally reputable rating agencies or any other rating agency that is acceptable to the Participants.

Engine Kits: a set of parts introduced to improve reliability, durability and/or on-wing performance procurement through introduction of technology.

Export Credit: an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time; an export credit may take the form of a supplier credit extended by the exporter, or of a buyer credit, where the exporter's bank or other financial institution lends to the buyer (or its bank).

Final Commitment: a final commitment exists when the Participant commits to precise and complete financial terms and conditions, either through a reciprocal agreement or by a unilateral act.

Firm Contract: an agreement between the manufacturer and the person taking delivery of the aircraft or engines as buyer, or, in connection with a sale-leaseback arrangement, as lessee under a lease with a term of at least five years, setting forth a binding commitment (excluding those relating to then unexercised options), where non-performance entails legal liability.

Interested Participant: a Participant that (i) provides official support for airframe or aircraft engines completely or partially manufactured in its territory, (ii) has an existing substantial commercial interest or has experience with the buyer/borrower concerned, or (iii) has been requested by a manufacturer/exporter to provide official support to the buyer/borrower in question.

Interest Rate Support: can take the form of an arrangement between on the one hand a government, or an institution acting for or on behalf of a government and, on the other hand, banks or other financial institutions which allows the provision of fixed rate export finance at or above the relevant minimum fixed interest rate.

Major Modification/Refurbishing: operations of reconfiguration or upgrading of either a passenger or cargo aircraft.

Net Price: the price for an item invoiced by the manufacturer or supplier thereof, after accounting for all price discounts and other cash credits, less all other credits or concessions of any kind related or fairly allocable thereto, as stated in a binding representation by each of the aircraft and engine manufacturers the engine manufacturer representation is required only when it is relevant according to the form of the purchase agreement - or service provider, as the case may be, and supported by documentation required by the provider of official support to confirm that net price. All import duties and taxes (*e.g.* VAT) are not included in the net price.

New Aircraft: see Article 8 a) of this Sector Understanding.

Non-Asset-Backed: a transaction that does not meet the conditions set out in Article 19 a) of Appendix II.

Non-Sovereign Transaction: a transaction that does not meet the description set out in Article 57 b) of Appendix II.

Premium Holding Period: subject to Article 36 b) of Appendix II, period(s) during which a premium rate and related mandatory risk mitigants offered for a transaction are being maintained; not to exceed 18 months from the date it has been set until the final disbursement.

Premium Rate Conversion Model: model agreed by and made available to the Participants, to be used for the purpose of this Sector Understanding in order to convert up-front premium fees into spreads and vice versa, in which the interest rate and the discount rate used shall be 4.6%; such rate shall be reviewed regularly by the Participants.

Prior Notification: a notification made at least ten calendar days before issuing any commitment, using the reporting form set out in Appendix IV.

Pure Cover: Official support provided by or on behalf of a government by a way of export credit guarantee or insurance only, *i.e.* which does not benefit from official financing support.

Repayment Term: the period beginning at the Starting Point of Credit and ending on the contractual date of the final repayment of principal.

Sovereign Transaction: a transaction that meets the description set out in Article 56 b) of Appendix II.

Starting Point of Credit: for the sale of aircraft including helicopters, spare engines and parts, at the latest the actual date when the buyer takes physical possession of the goods, or the weighted mean date when the buyer takes physical possession of the goods. For services, the latest starting point of credit is the date of the submission of the invoices to the client or acceptance of service by the client.

Swap Rate: a fixed rate equal to the rate to swap floating rate debt to fixed rate debt (Offer side), posted as the relevant currency's Overnight Index Swap (OIS) curve, on any independent market index provider, such as Bloomberg, Reuters, or its equivalent, at 11:00 am New York time, two business days prior to the loan drawdown date.

Weighted Average Life: the time it takes to retire one-half of the principal of a credit; this is calculated as the sum of time (in years) between the starting point of credit and each principal repayment weighted by the portion of principal repaid at each repayment date.

ANNEX IV: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR SHIPS

CHAPTER I: GENERAL PROVISIONS

1. PURPOSE

The purpose of this Sector Understanding is to provide a framework for the orderly use of officially supported export credits for the items specified in Article 4 below. The Sector Understanding seeks to foster a level playing field for official support, as defined in Article 5 a), in order to encourage competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.

The Participants to this Sector Understanding (the Participants) acknowledge that the provisions included in this Sector Understanding have been developed for the sole purpose of this Sector Understanding and such provisions do not prejudice the other parts of the Arrangement on Officially Supported Export Credits (the Arrangement) and their evolution.

2. STATUS

The Sector Understanding is a Gentlemen's Agreement among its Participants and is Annex IV to the Arrangement; it forms an integral part of the Arrangement and it succeeds the Sector Understanding, which came into effect on 1 September 2011.

3. PARTICIPATION

The Participants to the Sector Understanding are: Australia, the European Union, Japan, Korea, New Zealand and Norway.

4. SCOPE OF APPLICATION

This Sector Understanding sets out specific guidelines for officially supported export credits, which have a repayment term of two years or more, relating to export contracts of:

a) Any new sea-going vessel of 100 gt and above used for the transportation of goods or persons, or for the performance of a specialised service (for example, fishing vessels, fish factory ships, ice breakers and as dredgers, that present in a permanent way by their means of propulsion and direction (steering) all the characteristics of self-navigability in the high sea), tugs of 365 kw and over and to unfinished shells of ships that are afloat and mobile. The Sector Understanding does not cover military vessels. Floating docks and mobile offshore units are not covered by the Sector Understanding, but should problems arise in connection with export credits for such structures, the Participants to the Sector Understanding (hereinafter the "Participants"), after consideration of substantiated requests by any Participant, may decide that they shall be covered.

b) Any conversion of a ship. Ship conversion means any conversion of sea-going vessels of more than 1 000 gt on condition that conversion operations entail radical alterations to the cargo plan, the hull or the propulsion system.

c) 1) Although hovercraft-type vessels are not included in the Sector Understanding, Participants are allowed to grant export credits for hovercraft vessels on equivalent conditions to those prevailing in the Sector Understanding. They commit themselves to apply this possibility moderately and not to grant such credit conditions to hovercraft vessels in cases where it is established that no competition is offered under the conditions of the Sector Understanding.

2) In the Sector Understanding, the term "hovercraft" is defined as follows: an amphibious vehicle of at least 100 tons designed to be supported wholly by air expelled from the vehicle forming a plenum contained within a flexible skirt around the periphery of the vehicle and the ground or water surface beneath the vehicle, and capable of being propelled and controlled by airscrews or ducted air from fans or similar devices.

3) It is understood that the granting of export credits at conditions equivalent to those prevailing in this Sector Understanding should be limited to those hovercraft vessels used on maritime routes and non-land routes, except for reaching terminal facilities standing at a maximum distance of one kilometre from the water.

5. OFFICIAL SUPPORT

a) Official support may be provided in different forms:

1) Export credit guarantee or insurance (pure cover).

2) Official financing support:

- direct credit/financing and refinancing, or

- interest rate support.

3) Any combination of the above.

b) Official support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country which is not the final destination of the goods, primarily with the aim of obtaining more favourable repayment terms.

6. WITHDRAWAL

A Participant to this Sector Understanding may withdraw from it by notifying the Secretariat in writing by means of instant communication, *e.g.* using the electronic mail system that is maintained by the Secretariat to facilitate communications amongst Participants and the Secretariat. The withdrawal takes effect 180 calendar days after receipt of the notification by the Secretariat.

7. MONITORING

The Secretariat shall monitor the implementation of the Sector Understanding.

CHAPTER II: FINANCIAL TERMS AND CONDITIONS FOR EXPORTS CREDITS

Financial terms and conditions for export credits supported under this Sector Understanding encompass all the provisions set out in this Chapter which shall be read in conjunction one with the other. The Sector Understanding sets out limitations on terms and conditions that may be officially supported. The Participants recognise that more restrictive financial terms and conditions than those provided for by the Sector Understanding traditionally apply to certain trade or industrial sectors. The Participants shall continue to respect such customary financial terms and conditions, in particular the principle by which repayment terms do not exceed the useful life of the goods.

8. MAXIMUM REPAYMENT TERM

The maximum repayment term is 12 years after delivery.

9. CASH PAYMENT

The Participants shall require a minimum cash payment of 20% of the contract price by delivery.

10. REPAYMENT OF PRINCIPAL AND PAYMENT OF INTEREST

a) The principal sum of an export credit shall be repaid in equal instalments at regular intervals of normally six months and a maximum of 12 months.

b) Interest shall be paid no less frequently than every six months and the first payment of interest shall be made no later than six months after the starting point of credit normally at delivery.

c) For export credits provided in support of lease transactions, equal repayments of principal and interest combined may be applied in lieu of equal repayments of principal as set out in paragraph a).

d) Interest due after the starting point of credit normally at delivery shall not be capitalised.

e) A Participant to this Sector Understanding intending to support a payment of interest on different terms than those set out in paragraph b) shall give prior notification at least ten calendar days before issuing any commitment, in accordance with Appendix I of this Sector Understanding.

11. INTEREST RATES AND OTHER FEES

Interest excludes:

a) any payment by way of premium or other charge for insuring or guaranteeing supplier credits or financial credits;

b) any payment by way of banking fees or commissions relating to the export credit other than annual or semi-annual bank charges that are payable throughout the repayment period; and

c) withholding taxes imposed by the importing country.

12. VALIDITY PERIOD FOR EXPORT CREDITS

Financial terms and conditions for an individual export credit or line of credit, other than the validity period for the Commercial Interest Reference Rates (CIRRs) set out in Article 17, shall not be fixed for a period exceeding six months prior to final commitment.

13. ACTION TO AVOID OR MINIMISE LOSSES

This Sector Understanding does not prevent export credit authorities or financing institutions from agreeing to less restrictive financial terms and conditions than those provided for by the Understanding, if such action is taken after the contract award (when the export credit agreement and ancillary documents have already become effective) and is intended solely to avoid or minimise losses from events which could give rise to non-payment or claims.

14. MATCHING

Taking into account a Participant's international obligations and consistent with the purpose of the this Understanding, a Participant may match, according to the procedures set out in Article 24, financial terms and conditions offered by a Participant or a non-Participant. Financial terms and conditions provided in accordance with this Article are considered to be in conformity with the provisions of this Understanding.

15. MINIMUM FIXED INTEREST RATES UNDER OFFICIAL FINANCING SUPPORT

The Participants providing official financing support for fixed rate loans shall apply the relevant CIRRs as minimum interest rates. CIRRs are interest rates established according to the following principles:

a) CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned;

b) CIRRs should closely correspond to the rate for first class domestic borrowers;

c) CIRRs should be based on the funding cost of fixed interest rate finance;

d) CIRRs should not distort domestic competitive conditions; and

e) CIRRs should closely correspond to a rate available to first class foreign borrowers.

16. CONSTRUCTION OF CIRRs

a) Each Participant wishing to establish a CIRR shall initially select one of the following two base rate systems for its national currency:

1) three-year government bond yields for a repayment term of up to and including five years; five-year government bond yields for over five and up to and including eight and a half years; and seven-year government bond yields for over eight and a half years; or

2) five-year government bond yields for all maturities.

Exceptions to the base rate system shall be agreed by the Participants.

b) CIRRs shall be set at a fixed margin of 100 basis points above each Participant's base rate unless Participants have agreed otherwise.

c) Other Participants shall use the CIRR set for a particular currency should they decide to finance in that currency.

d) A Participant may change its base-rate system after giving six months' advance notice and with the counsel of the Participants.

e) A Participant or a non-Participant may request that a CIRR be established for the currency of a non-Participant. In consultation with the interested non-Participant, a Participant or the Secretariat on behalf of that non-Participant may make a proposal for the construction of the CIRR in that currency using Common Line procedures in accordance with Articles 32 to 34.

17. VALIDITY OF CIRRs

The interest rate applying to a transaction shall not be fixed for a period longer than 120 days. A margin of 20 basis points shall be added to the relevant CIRR if the terms and conditions of the official financing support are fixed before the contract date.

18. APPLICATION OF CIRRs

a) Where official financing support is provided for floating rate loans, banks and other financing institutions shall not be allowed to offer the option of the lower of either the CIRR (at time of the original contract) or the short-term market rate throughout the life of the loan.

b) In the event of a voluntary, early repayment of a loan of or any portion thereof, the borrower shall compensate the government institution providing official financing support for all costs and losses incurred as a result of such early repayment, including the cost to the government institution of replacing the part of the fixed rate cash inflow interrupted by the early repayment.

19. COMMUNICATION OF MINIMUM INTEREST RATES

a) CIRRs for currencies that are determined according to articles 16, 17 and 18 shall be sent by means of instant communication at least monthly to the Secretariat for circulation to all Participants.

b) Such notification shall reach the Secretariat no later than five days after the end of each month covered by this information. The Secretariat shall then inform immediately all Participants of the applicable rates and make them publicly available.

20. EFFECTIVE DATE FOR APPLICATION OF INTEREST RATES

Any changes in the CIRRs shall enter into effect on the fifteenth day after the end of each month.

21. IMMEDIATE CHANGES IN INTEREST RATES

When market developments require the notification of an amendment to a CIRR during the course of a month, the amended rate shall be implemented ten days after notification of this amendment has been received by the Secretariat.

22. PREMIUM FOR CREDIT RISK

The Participants shall charge premium, in addition to interest charges, to cover the risk of non-repayment of export credits.

CHAPTER III: PROCEDURES

23. INFORMATION ON OFFICIAL SUPPORT

a) As soon as a Participant commits the official support which it has notified in accordance with the procedures in Article 26, it shall inform all other Participants accordingly by including the notification reference number on the relevant reporting form.

b) In an exchange of information in accordance with Articles 28 to 30, a Participant shall inform the other Participants of the credit terms and conditions that it envisages supporting for a particular transaction and may request similar information from the other Participants.

24. PROCEDURES FOR MATCHING

a) Before matching financial terms and conditions assumed to be offered by a Participant or a non-Participant pursuant to Article 14, a Participant shall make every reasonable effort, including as appropriate by use of the face to face consultations described in Article 30 to verify that these terms and conditions are officially supported and shall comply with the following:

1) The Participant shall notify all other Participants of the terms and conditions it intends to support following the same notification procedures required for the matched terms and conditions. In the case of matching a non-Participant, the matching Participant shall follow the same notification procedures that would have been required had the matched terms been offered by a Participant.

2) Notwithstanding sub-paragraph 1) above, if the applicable notification procedure would require the matching Participant to withhold its commitment beyond the final bid closing date, then the matching Participant shall give notice of its intention to match as early as possible.

3) If the initiating Participant moderates or withdraws its intention to support the notified terms and conditions, it shall immediately inform all other Participants accordingly.

b) A Participant intending to offer identical financial terms and conditions to those notified according to Article 26 may do so once the waiting period stipulated therein has expired. This Participant shall give notification of its intention as early as possible.

25. SPECIAL CONSULTATIONS

a) A Participant that has reasonable grounds to believe that financial terms and conditions offered by another Participant (the initiating Participant) are more generous than those provided for in this Sector Understanding shall inform the Secretariat; the Secretariat shall immediately make available such information.

b) The initiating Participant shall clarify the financial terms and conditions of its offer within two working days following the issue of the information from the Secretariat.

c) Following clarification by the initiating Participant, any Participant may request that a special consultation meeting of the Participants be organised by the Secretariat within five working days to discuss the issue.

d) Pending the outcome of the special consultation meeting of the Participants, financial terms and conditions benefiting from official support shall not become effective.

26. PRIOR NOTIFICATION

a) A Participant shall, in accordance with Appendix I, notify all other Participants at least ten calendar days before issuing any commitment with a credit value of greater than SDR 2 million if it intends to provide support in accordance with Article 10 e).

b) If the initiating Participant moderates or withdraws its intention to provide support for such transaction, it shall immediately inform all other Participants.

27. CONTACT POINTS

All communications shall be made between the designated contact points in each country by means of instant communication, *e.g.* electronic mail, and shall be treated in confidence.

28. SCOPE OF ENQUIRIES

a) A Participant may ask another Participant about the attitude it takes with respect to a third country, an institution in a third country or a particular method of doing business.

b) A Participant that has received an application for official support may address an enquiry to another Participant, giving the most favourable credit terms and conditions that the enquiring Participant would be willing to support.

c) If an enquiry is made to more than one Participant, it shall contain a list of addressees.

d) A copy of all enquiries shall be sent to the Secretariat.

29. SCOPE OF RESPONSES

a) The Participant to which an enquiry is addressed shall respond within seven calendar days and provide as much information as possible. The reply shall include the best indication that the Participant can give of the decision it is likely to take. If necessary, the full reply shall follow as soon as possible. Copies shall be sent to the other addressees of the enquiry and to the Secretariat.

b) If an answer to an enquiry subsequently becomes invalid for any reason, because for example:

- an application has been made, changed or withdrawn, or

- other terms are being considered,

a reply shall be made without delay and copied to all other addressees of the enquiry and to the Secretariat.

30. FACE-TO-FACE CONSULTATIONS

a) A Participant shall agree within ten working days to requests for face-to-face consultations.

b) A request for face-to-face consultations shall be made available to Participants and non-Participants. The consultations shall take place as soon as possible after the expiry of the ten working-day period.

c) The Chairman of the Participants shall co-ordinate with the Secretariat on any necessary follow up action, *e.g.* a Common Line. The Secretariat shall promptly make available the outcome of the consultation.

31. PROCEDURES AND FORMAT OF COMMON LINES

a) Common Line proposals are addressed only to the Secretariat. A proposal for a Common Line shall be sent to all Participants. The identity of the initiator is not revealed on the Common Line Register on the electronic Bulletin Board maintained by the Secretariat on the OECD Network Environment. However, the Secretariat may orally reveal the identity of the initiator to a Participant on demand. The Secretariat shall keep a record of such requests.

b) The Common Line proposal shall be dated and shall be in the following format:

- Reference number, followed by “Common Line”.
- Name of the importing country and buyer.
- Name or description of the project as precise as possible to clearly identify the project.
- Terms and conditions foreseen by the initiating country.
- Common Line proposal.
- Nationality and names of known competing bidders.

- Commercial and financial bid closing date and tender number to the extent it is known.

- Other relevant information, including reasons for proposing the Common Line, availability of studies of the project and/or special circumstances.

c) The Secretariat shall make publicly available the agreed Common Lines.

32. RESPONSES TO COMMON LINE PROPOSALS

a) Responses shall be made within 20 calendar days, although the Participants are encouraged to respond to a Common Line proposal as quickly as possible.

b) A response may be a request for additional information, acceptance, and rejection, a proposal for modification of the Common Line or an alternative Common Line proposal.

c) A Participant that advises that it has no position because it has not been approached by an exporter, or by the authorities in the recipient country in case of aid for the project, shall be deemed to have accepted the Common Line proposal.

33. ACCEPTANCE OF COMMON LINES

a) After a period of 20 calendar days, the Secretariat shall inform all Participants of the status of the Common Line proposal. If not all Participants have accepted the Common Line, but no Participant has rejected it, the proposal shall be left open for a further period of eight calendar days.

b) After this further period, a Participant that has not explicitly rejected the Common Line proposal shall be deemed to have accepted the Common Line. Nevertheless, a Participant, including the initiating Participant, may make its acceptance of the Common Line conditional on the explicit acceptance by one or more Participants.

c) If a Participant does not accept one or more elements of a Common Line it implicitly accepts all other elements of the Common Line. It is understood that such a partial acceptance may lead other Participants to change their attitude towards a proposed Common Line. All Participants are free to offer or match terms and conditions not covered by a Common Line.

d) A Common Line that has not been accepted may be reconsidered using the procedures in Articles 31 and 33. In these circumstances, the Participants are not bound by their original decision.

34. DISAGREEMENT ON COMMON LINES

If the initiating Participant and a Participant which has proposed a modification or alternative cannot agree on a Common Line within the additional eight-calendar day period, this period can be extended by their mutual consent. The Secretariat shall inform all Participants of any such extension.

35. EFFECTIVE DATE OF COMMON LINE

The Secretariat shall inform all Participants either that the Common Line will go into effect or that it has been rejected; the Common Line will take effect three calendar days after this announcement. The Secretariat shall make available on the electronic bulletin board a permanently updated record of all Common Lines that have been agreed or are undecided.

36. VALIDITY OF COMMON LINES

a) A Common Line, once agreed, shall be valid for a period of two years from its effective date, unless the Secretariat is informed that it is no longer of interest, and that this is accepted by all Participants. A Common Line shall remain valid for a further two-year period if a Participant seeks an extension within 14 calendar days of the original date of expiry. Subsequent extensions may be agreed through the same procedure.

b) The Secretariat shall monitor the status of Common Lines and shall keep the Participants informed accordingly, through the maintenance of the listing "The Status of Valid Common Lines" on the electronic bulletin board. Accordingly, the Secretariat, *inter alia*, shall:

- Add new Common Lines when these have been accepted by the Participants.
- Update the expiry date when a Participant requests an extension.
- Delete Common Lines that have expired.
- Issue, on a quarterly basis, a list of Common Lines due to expire in the following quarter.

37. OTHER NOTIFICATION

For the purpose of transparency each Participant shall, in addition to other transaction-level reporting requirements**,** provide annually information on its system for the provision of official support and of the means of implementation of this Sector Understanding, including the schemes in force.

38. REVIEW

a) The Sector Understanding shall be reviewed annually or upon request by any Participant within the context of the Council Working Party on Shipbuilding (WP6), and a report made to the Participants to the Arrangement.

b) To facilitate coherence and consistency between the Arrangement and this Sector Understanding and taking into account the nature of the shipbuilding industry, the Participants to this Sector Understanding and to the Arrangement will consult and co-ordinate as appropriate.

c) The Participants shall review the minimum interest rates.

- The Participants shall periodically review the system for setting CIRRs in order to ensure that the notified rates reflect current market conditions and meet the aims underlying the establishment of the rates in operation. Such reviews shall also cover the margin to be added when these rates are applied.

- A Participant may submit to the Chairman of the Participants a substantiated request for an extraordinary review in case this Participant considers that the CIRR for one or more than one currency no longer reflect current market conditions.

APPENDIX I

INFORMATION TO BE PROVIDED FOR NOTIFICATIONS

The information listed in a) to d) below shall be provided for all notifications made under this Sector Understanding. In addition, the information specified in e) shall be provided, as appropriate, in relation to the specific type of notification being made.

a) Basic Information

1. Notifying country
2. Date of notification
3. Notifying institution/authority/agency
4. ECA(s) extending official export credit support
   a. ECA providing insurance/guarantee support
   b. ECA providing finance support
5. Notification number
6. Identification codes (internal)
7. Credit line reference number (if relevant)
8. Status (*e.g.* original, revision, replacement)

9. Revision number (if relevant)

10. Article(s) of the Sector Understanding under which notification is being made

11. Reference number of notification matched (if relevant)

12. Description of support being matched (if relevant)

13. Destination country

b) Buyer/Borrower/Guarantor Information

14. Buyer name

15. Buyer country

16. Buyer location (if known)

17. Buyer status

18. Buyer type

19. Borrower name (if the borrower is not the buyer)

20. Borrower country (if the borrower is not the buyer)

21. Borrower location (if the borrower is not the buyer)

22. Borrower status (if the borrower is not the buyer)

23. Borrower type (if the borrower is not the buyer)

24. Guarantor name (if relevant)

25. Guarantor country (if relevant)

26. Guarantor location (if relevant)

27. Guarantor status (if relevant)

28. Guarantor type (if relevant)

c) Information on Goods and/or Services Being Exported and the Project

29. Detailed description of the products and/or services being exported

30. Detailed description of the project (or sector) for which the exports are being provided

31. Suggested purpose code

32. Location of the project (if known)

33. Tender closing date (if relevant)

34. Expiry date of credit line (if relevant)

35. Value of contract(s) supported, according to the following scale in millions of SDRs:

Category	From	To
I:	0	1
II:	1	2
III:	2	3
IV:	3	5
V:	5	7
VI:	7	10
VII:	10	20
VIII:	20	40
IX:	40	80
X:	80	120
XI:	120	160
XII:	160	200
XIII:	200	240
XIV:	240	280
XV:	280	*

* *Indicate the number of SDR 40 million multiples in excess of SDR 280 million,* e.g. *SDR 410 million would be notified as Category XV+3.*

36. Value of contract(s) supported, actual amount (in contract currency)

37. Currency of contract(s)

d) Financial Terms and Conditions of the Official Export Credit Support

The following information should be provided in respect of each tranche supported for transactions comprising multiple tranches with different financial terms and conditions.

38. Credit value, SDR scale
39. Credit value, actual amount (optional in lieu of item 38)
40. Credit currency
41. Cash payment (% export contract value)
42. SPOC normally at delivery determined according to (with reference to Appendix II definition j)
43. Length of the repayment period
44. Length of repayment period units
45. Interest rate base
46. Interest rate or margin above base
47. Comments, notes and/or explanations regarding the information provided in a) to d).

e) Additional information to be provided, as appropriate, for notifications made in relation to Chapter II Article 10 e)

48. Repayment profile
49. Repayment frequency (principal)

50. Repayment frequency (interest)

51. First principal repayment after SPOC normally at delivery

52. Amount of interest capitalised before the SPOC normally at delivery

53. Capitalised interest currency

54. Weighted average life of the repayment period

55. Percentage principal repaid by mid-point of credit

56. Explanation of the reason for not providing support according to standard repayment structures

57. Comments, notes and/or explanations regarding the information provided in e).

APPENDIX II

LIST OF DEFINTIONS

For the purpose of this Understanding:

a) Commitment: any statement, in whatever form, whereby the willingness or intention to provide official support is communicated to the recipient country, the buyer, the borrower, the exporter or the financial institution.

b) Common Line: an understanding between the Participants to agree, for a given transaction or in special circumstances, on specific financial terms and conditions for official support. The rules of an agreed Common Line supersede the rules of the Understanding only for the transaction or in the circumstances specified in the Common Line.

c) Export Contract Value: the total amount to be paid by or on behalf of the purchaser for goods and/or services exported, *i.e.* excluding local costs as defined hereafter; in the case of a lease, it excludes the portion of the lease payment that is equivalent to interest.

d) Final Commitment: for an export credit transaction (either in the form of a single transaction or a line of credit), a final commitment exists when the Participant commits to precise and complete financial terms and conditions, either through a reciprocal agreement or by a unilateral act.

e) Interest Rate Support: an arrangement between a government and banks or other financial institutions which allows the provision of fixed rate export finance at or above the CIRR.

f) Line of Credit: a framework, in whatever form, for export credits that covers a series of transactions which may or may not be linked to a specific project.

g) Local Costs: expenditure for goods and services in the buyer's country that are necessary either for executing the exporter's contract or for completing the project of which the exporter's contract forms a part. These exclude commission payable to the exporter's agent in the buying country.

h) Pure Cover: official support provided by or on behalf of a government by way of export credit guarantee or insurance only, *i.e.* which does not benefit from official financing support.

i) Repayment Term: the period beginning at the starting point of credit normally at delivery, as defined in this Appendix, and ending on the contractual date of the final repayment of principal.

j) Starting Point of Credit:

1) *Parts or components (intermediate goods) including related services*: in the case of parts or components, the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods (including services, if applicable) by the buyer or, for services, the date of the submission of the invoices to the client or acceptance of services by the client.

2) *Quasi-capital goods, including related services - machinery or equipment, generally of relatively low unit value, intended to be used in an industrial process or for productive or commercial use*: in the case of quasi-capital goods, the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods by the buyer or, if the exporter has responsibilities for commissioning, then the latest starting point is at commissioning, or for services, the date of the submission of the invoices to the client or acceptance of the service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

3) *Capital goods and project services - machinery or equipment of high value intended to be used in an industrial process or for productive or commercial use*:

- In the case of a contract for the sale of capital goods consisting of individual items usable in themselves, the latest starting point is the actual date when the buyer takes physical possession of the goods, or the weighted mean date when the buyer takes physical possession of the goods.

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point is the date at which the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- If the exporter has responsibility for commissioning, the latest starting point is at commissioning.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

4) *Complete plants or factories – complete productive units of high value requiring the use of capital goods:*

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point of credit is the date when the buyer takes physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- In case of construction contracts where the contractor has no responsibility for commissioning, the latest starting point is the date when construction has been completed.

- In the case of any contract where the supplier or contractor has a contractual responsibility for commissioning, the latest starting point is the date when it has completed installation or construction and preliminary tests to ensure it is ready for operation. This applies whether or not it is handed over to the buyer at that time in accordance with the terms of the contract and irrespective of any continuing commitment which the supplier or contractor may have, *e.g.* for guaranteeing its effective functioning or training local personnel.

- Where the contract involves the separate execution of individual parts of a project, the date of the latest starting point is the date of the starting point for each separate part, or the mean date of those starting points, or, where the supplier has a contract, not for the whole project but for an essential part of it, the starting point may be that appropriate to the project as a whole.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or the acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

k) Weighted Average Life of the Repayment Period: the time that it takes to retire one-half of the principal of a credit. This is calculated as the sum of time (in years) between the starting point of credit normally at delivery and each principal repayment weighted by the portion of principal repaid at each repayment date.

ATTACHMENT: COMMITMENTS FOR FUTURE WORK

The Participants to this Sector Understanding agree:

a) To develop an illustrative list of types of ships which are generally considered non-commercially viable, taking into account the disciplines on tied aid set out in the Arrangement.

b) To review the provisions of the Arrangement in relation to minimum premium benchmarks with a view to incorporating them into this Sector Understanding.

c) To discuss, subject to the developments in relevant international negotiations, the inclusion of other disciplines on minimum interest rates including a special CIRR and floating rates.

d) To review the applicability to this Sector Understanding of provisions of the Arrangement in relation to Project Finance.

e) To discuss whether:

- the date of the first instalment of principal;
- the Weighted Average Life concept

may be used in relation to the repayment profile contained in Article 10 of this Sector Understanding.

ANNEX V: INFORMATION TO BE PROVIDED FOR NOTIFICATIONS

The information listed in Section I below shall be provided for all notifications made under the Arrangement (including its Annexes). In addition, the information specified in Section II shall be provided, as appropriate, in relation to the specific type of notification being made.

I. INFORMATION TO BE PROVIDED FOR ALL NOTIFICATIONS

f) Basic Information

1. Notifying country
2. Date of notification
3. Notifying institution/authority/agency
4. ECA(s) extending official export credit support

a. ECA providing insurance/guarantee support

b. ECA providing finance support

5. Notification number
6. Identification codes (internal)
7. Credit line reference number (if relevant)
8. Status (*e.g.* original, revision, replacement)
9. Revision number (if relevant)

10. Arrangement Article(s) under which notification is being made

11. Reference number of notification matched (if relevant)

12. Description of support being matched (if relevant)

13. Destination country

g) Buyer/Borrower/Guarantor Information

14. Buyer name

15. Buyer country

16. Buyer location (if known)

17. Buyer status

18. Buyer type

19. Borrower name (if the borrower is not the buyer)

20. Borrower country (if the borrower is not the buyer)

21. Borrower location (if the borrower is not the buyer)

22. Borrower status (if the borrower is not the buyer)

23. Borrower type (if the borrower is not the buyer)

24. Guarantor name (if relevant)
25. Guarantor country (if relevant)
26. Guarantor location (if relevant)
27. Guarantor status (if relevant)
28. Guarantor type (if relevant)

h) Information on Goods and/or Services Being Exported and the Project

29. Detailed description of the products and/or services being exported
30. Detailed description of the project (or sector) for which the exports are being provided
31. Suggested purpose code
32. Location of the project (if known)
33. Tender closing date (if relevant)
34. Expiry date of credit line (if relevant)
35. Value of contract(s) supported, according to the following scale in millions of SDRs:

Category	From	To
I:	0	1
II:	1	2
III:	2	3
IV:	3	5
V:	5	7
VI:	7	10
VII:	10	20
VIII:	20	40
IX:	40	80
X:	80	120
XI:	120	160
XII:	160	200
XIII:	200	240
XIV:	240	280
XV:	280	*

* *Indicate the number of SDR 40 million multiples in excess of SDR 280 million,* e.g. *SDR 410 million would be notified as Category XV+3.*

36. Value of contract(s) supported, actual amount (in contract currency)

37. Currency of contract(s)

i) Financial Terms and Conditions of the Official Export Credit Support

The following information should be provided in respect of each tranche supported for transactions comprising multiple tranches with different financial terms and conditions.

38. Credit value, SDR scale

39. Credit value, actual amount (optional in lieu of item 38)

40. Credit currency

41. Down payment (% export contract value)

42. Local Costs (% export contract value)

43. SPOC determined according to (with reference to Annex XIII definition u)

44. Length of the repayment term

45. Length of repayment term units

46. Interest rate base

47. Interest rate or margin above base

48. Comments, notes and/or explanations regarding the information provided in Section I

II. ADDITIONAL INFORMATION TO BE PROVIDED, AS APPROPRIATE, FOR NOTIFICATIONS MADE IN RELATION TO SPECIFIC PROVISIONS

a) Chapter II Article 11 d) 3)

The following information should be provided in respect of each tranche supported for transactions comprising multiple tranches with different financial terms and conditions.

49. Type of local costs supported

50. Nature of local costs supported: Capital equipment?

51. Nature of local costs supported: Deliveries from local subsidiaries and/or affiliates?

52. Nature of local costs supported: Local construction or installation costs?

53. Nature of local costs supported: VAT, import duties, other taxes?

54. Nature of local costs supported: Other?

55. Description of "other" local costs

56. Comments, notes and/or explanations regarding the information provided in Section II.a.

b) Chapter II Article 13 f), Annex I Article 6 a), Annex II Article 6 a)

57. Repayment profile

58. Repayment frequency (principal)

59. Repayment frequency (interest)

60. First principal repayment after SPOC

61. First principal repayment after SPOC units

62. Amount of interest capitalised before the SPOC

63. Capitalised interest currency

64. Weighted average life of the repayment period

65. Percentage principal repaid by mid-point of credit

66. maximum single instalment (% of credit)

67. Explanation of the reasons why there is an imbalance between the timing of funds available to the obligor and the debt service profile permitted according to either (as relevant) Articles 13 a) and 13 b), Articles 3 a) and 3 b) of Annex II, or Articles 5 a) and 5 b) of Annex IV.

68. For transactions with a repayment profile that does not match the free cash flow, a detailed and adequate justification of the repayment profile supported.

69. Comments, notes and/or explanations regarding the information provided in Section II.b.

c) All notification obligations in Chapter II Articles 21, 24, 26, and 27.

70. Country risk classification of the obligor's country

71. Application of an offshore future flow structure combined with an offshore escrow account? (Categories 1-7 only)

72. The applicable country and buyer risk categories are related to the (buyer, borrower, guarantor, project, transaction)

73. Applicable country risk classification

74. Applicable buyer risk category

75. Does the entity indicated in item 72 have a foreign currency rating from an accredited credit rating agency (CRA)?

76. Most favourable accredited CRA foreign currency rating for the entity indicated in item 72

77. Accredited CRA providing the rating reported in item 76

78. Basis for applicable Minimum Premium Rate (MPR)

79. Basis for actual premium rate charged

80. Comments, notes and/or explanations regarding the basis for the actual premium rate charged

81. Length of the drawdown period

82. Length of drawdown period units

83. Percentage of cover for political (country) risk

84. Percentage of cover for commercial (buyer) risk

85. Official export credit product

86. Interest covered during claims waiting period?

87. MPR (based on item 78) country risk mitigation or buyer risk credit enhancements

88. Local currency financing? (Cat 1-7 MPRs only)

89. Local currency factor (LCF) applied

90. Buyer risk credit enhancements?

91. Total credit enhancement factor (CEF) applied

92. Applicable MPR (based on item 78) after any country risk mitigation or buyer risk credit enhancements

93. Actual premium rate charged

94. Comments, notes and/or explanations regarding the information provided in Section II.c.

d) Arrangement, Article 24 e) first tiret

95. Explanation of the characteristics of the obligor against the criteria for Buyer Risk Category CC0 in Annex X of the Arrangement

e) Arrangement, Article 24 e) second tiret

96. Rationale for buyer risk category better than accredited CRA rating

f) Arrangement, Article 21 c) 2) first tiret

97. Type of name-specific or related entity debt instrument used to set premium

98. Name of the debt instrument entity

99. Detailed description and key characteristics of the debt instrument and the methodology used to derive the pricing, including (but not limited to) information about the tenor, credit profile, liquidity and currency of the instrument

100. Relationship between the transaction obligor/guarantor and the related entity

101. Does the transaction obligor/guarantor have the same issuer CRA rating as the related entity?

102. Does the related entity meet all of the criteria listed in Annex XIII (definition "s") of the Arrangement?

103. Detailed explanation of how the criteria that define a related entity have been met

g) Arrangement, Article 21 c) 2) second tiret

104. Justification for the buyer risk classification

105. Best accredited CRA foreign currency rating for the sovereign in the obligor's/guarantor's domicile (If the applicable buyer risk category is more favourable than the best accredited CRA rating of the sovereign in the obligor's/guarantor's domicile for an unrated obligor)

106. Accredited CRA providing the rating reported in #104

h) Arrangement, Article 21 c) 1)

107. Is syndicated loan package structured as either an asset-backed or project finance transaction?

108. Do commercial market loans/guarantees without any bilateral or multilateral support comprise at least 25% of the syndicate?

109. Are all parties to the financing on *pari passu* terms on all financial terms and conditions, including the security package?

110. Are the financial terms and conditions of the transaction fully compliant with the Arrangement, as modified by the provisions for Market Benchmark pricing in syndicated loans/guarantees transactions?

111. Detailed description of the methodology used to derive the premium (or all-in cost for direct lending) reported in item 93

112. Comments, notes and/or explanations regarding the information provided in Section II.d.

i) Arrangement, Article 21 h)

113. Does the guarantee cover the entire duration of the debt?

114. Is the guarantee irrevocable, unconditional and available on demand?

115. Is the guarantee legally valid and capable of being enforced in the guarantor country's jurisdiction?

116. Is the guarantor creditworthy in relation to the size of the guaranteed debt?

117. Is the guarantor subject to the monetary control and transfer regulations of the country in which it is located?

118. Percentage of the total amount at risk (*i.e.* principal and interest) that is covered by the guarantee

119. Does any financial relationship exist between the guarantor and the obligor?

120. Type of relationship

121. Is the guarantor legally and financially independent and can it fulfil the obligor's payment obligation?

122. Would the guarantor be affected by events, regulations or sovereign intervention in the obligor's country?

123. Comments, notes and/or explanations regarding the information provided in Section II.e.

j) Arrangement, Article 26 b)

For the application of an offshore future flow structure combined with an offshore escrow account:

124.- 134. Confirmation that the criteria listed in Annex X have been met

135. Information on additional factors taken into consideration and/or any other comments regarding the application of an offshore future flow structure combined with an offshore escrow account

For local currency financing:

136.- 141. Confirmation that the criteria listed in Annex X have been met

142.Local currency used

143.Information on additional factors taken into consideration and/or any other comments regarding the application of local currency financing

144.Comments, notes and/or explanations regarding the information provided in Section II.f.

k) Arrangement, Article 27 d)

145.–152. The specific buyer risk credit enhancements and corresponding credit enhancement factors applied

153.Comments, notes and/or explanations regarding the information provided in Section II.g.

l) Arrangement, Articles 45 and 46

154.Total amount of trade-related aid, SDR scale

155.Composition of trade-related aid package: share of non-concessional export credits in conformity with the Arrangement

156.Composition of trade-related aid package: share of other funds at or near market rates

157.Composition of trade-related aid package: share of other official funds with a concessionality level of less than the minimum permitted under Article 33 except in cases of matching

158. Composition of trade-related aid package: share of down payment from the purchaser

159. Composition of trade-related aid package: share of payments on or before the starting point of credit that are not considered

160. Composition of trade-related aid package: share of grants

161. Composition of trade-related aid package: share of concessional credits

162. Terms and conditions of concessional credits: grace period

163. Terms and conditions of concessional credits: length of repayment period

164. Terms and conditions of concessional credits: repayment frequency

165. Terms and conditions of concessional credits: repayment profile

166. Terms and conditions of concessional credits: currency

167. Terms and conditions of concessional credits: interest rate

168. Terms and conditions of concessional credits: applicable DDR

169. Terms and conditions of concessional credits: concessionality level

170. Overall concessionality level of the trade-related aid package

171. Comments, notes and/or explanations regarding the information provided in section II. k)

ANNEX VI: CALCULATION OF THE MINIMUM PREMIUM RATES FOR COUNTRY RISK CATEGORY 1-7 TRANSACTIONS

MPR Formula

The formula for calculating the applicable MPR for an export credit involving an obligor/guarantor in a country classified in Country Risk Categories 1-7 is:

$$\mathbf{MPR = \{ [(a_i * HOR + b_i) * max (PCC, PCP) / 0.95] * (1-LCF) + [c_{in} * PCC / 0.95 * HOR * (1-CEF)] \}* QPF_i * PCF_i *BTSF * (1- min (TERM, 0.15))}$$

where:

- a_i = country risk coefficient in country risk category i (i = 1-7)
- c_{in} = buyer risk coefficient for buyer category n (n = SOV+, SOV/CCO, CC1-CC5) in country risk category i (i = 1-7)
- b_i = constant for country category risk category i (i = 1-7)
- HOR = horizon of risk
- PCC = commercial (buyer) risk percentage of cover
- PCP = political (country) risk percentage of cover
- CEF = credit enhancements factor
- QPF_i = quality of product factor in country risk category i (i = 1-7)
- PCF_i = percentage of cover factor in country risk category i (i = 1-7)
- BTSF = better than sovereign factor
- LCF = local currency factor
- TERM = term adjustment factor

Applicable Country Risk Classification

The applicable country risk classification is determined according to Article 21 e) of the Arrangement, which in turn determines the country risk coefficient (a_i) and constant (b_i) that are obtained from the following table:

	1	2	3	4	5	6	7
a	0.090	0.200	0.350	0.550	0.740	0.900	1.100
b	0.350	0.350	0.350	0.350	0.750	1.200	1.800

Selection of the Appropriate Buyer Risk Category

The appropriate buyer risk category is selected from the following table, which provides the combinations of country and buyer risk categories that have been established and the agreed concordance between buyer risk categories CC1-CC5 and the classifications of accredited CRAs. Qualitative descriptions of each buyer risk category (SOV+ to CC5) have been established to facilitate the classification of obligors (and guarantors) and are provided in Annex X.

Country Risk Category						
1	2	3	4	5	6	7
SOV+	SOV+	SOV+	SOV+	SOV+	SOV+	SOV+
SOV / CC0	SOV / CC0	SOV / CC0	SOV / CC0	SOV / CC0	SOV / CC0	SOV / CC0
CC1 AAA to AA-	CC1 A+ to A-	CC1 BBB+ to BBB-	CC1 BB+ to BB	CC1 BB-	CC1 B+	CC1 B
CC2 A+ to A-	CC2 BBB+ to BBB-	CC2 BB+ to BB	CC2 BB-	CC2 B+	CC2 B	CC2 B- or worse
CC3 BBB+ to BBB-	CC3 BB+ to BB	CC3 BB-	CC3 B+	CC3 B	CC3 B- or worse	
CC4 BB+ to BB	CC4 BB-	CC4 B+	CC4 B	CC4 B- or worse		
CC5 BB- or worse	CC5 B+ or worse	CC5 B or worse	CC5 B- or worse			

The selected buyer risk category, in combination with the applicable country risk category determines the buyer risk coefficient (c_{in}) that is obtained from the following table:

Buyer Risk Category	Country Risk Category						
	1	2	3	4	5	6	7
SOV+	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SOV / CC0	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CC1	0.110	0.120	0.110	0.100	0.100	0.100	0.125
CC2	0.200	0.212	0.223	0.234	0.246	0.258	0.271
CC3	0.270	0.320	0.320	0.350	0.380	0.480	n/a
CC4	0.405	0.459	0.495	0.540	0.621	n/a	n/a
CC5	0.630	0.675	0.720	0.810	n/a	n/a	n/a

Horizon of Risk (HOR)

The Horizon of Risk (HOR) is calculated as follows:

For standard repayment profiles (*i.e.* equal semi-annual repayments of principal):

HOR = (length of the disbursement period * 0.5) + the length of the repayment period

For non-standard repayment profiles:

HOR = (length of the disbursement period * 0.5) + (weighted average life of the repayment period - 0.25) / 0.5

In the above formulas, the unit of measurement for time is years.

Percentage of Cover for Commercial (Buyer) Risk (PCC) and Political (Country) Risk (PCP)

The Percentages of Cover (PCC and PCP) expressed as a decimal value (*i.e.* 95% is expressed as 0.95) in the MPR formula.

Buyer Risk Credit Enhancements

The value of the credit enhancement factor (CEF) is 0 for any transaction that is not subject to any buyer risk credit enhancements. The value of the CEF for transactions that are subject to buyer risk credit enhancements is determined according to Annex X, subject to the restrictions set out in Article 27 c) of the Arrangement and may not exceed 0.35.

Quality of Product Factor (QPF)

The QPF is obtained from the following table:

Product Quality	Country Risk Category						
	1	2	3	4	5	6	7
Below Standard	0.9965	0.9935	0.9850	0.9825	0.9825	0.9800	0.9800
Standard	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Above Standard	1.0035	1.0065	1.0150	1.0175	1.0175	1.0200	1.0200

Percentage of Cover Factor (PCF)

The PCF is determined as follows:

For (max(PCC, PCP) ≤ 0.95, PCF = 1)

For (max(PCC, PCP) > 0.95, PCF = 1 + ((max(PCC, PCP) - 0.95) / 0.05) * (percentage of cover coefficient)

The percentage of cover coefficient is obtained from the following table:

	Country Risk Category						
	1	2	3	4	5	6	7
Percentage of cover coefficient	0.00000	0.00337	0.00489	0.01639	0.03657	0.05878	0.08598

Better than Sovereign Factor (BTSF)

When an obligor is classified in the "better than sovereign" (SOV+) buyer risk category, BTSF = 0.9, otherwise BTSF = 1.

Local Currency Factor (LCF)

For transaction making use of local currency country risk mitigation, the value of the LCF may not exceed 0.2. The value of the LCF for all other transactions is 0.

Term Adjustment Factor (TERM)

The Term Adjustment Factor (TERM) may only be applied for obligors that a Participant classifies in buyer risk categories equivalent to speculative grade (CRA rating equivalent of BB+ or worse) according to the concordance table in this Annex, including Buyer categories SOV+ and SOV/CC0 in country risk categories 5-7 and for transactions where the Horizon of risk (HOR) is greater than 10 years. In such a case, TERM = 0.018 * (HOR - 10). This adjustment is capped and may not exceed 15%.

ANNEX VII: PREMIUM BENCHMARKS FOR MARKET BENCHMARK TRANSACTIONS

Un-covered Tranche of Export Credits or the non-ECA Covered Part of a Syndicated Loan

The price indicated by private banks/institutions with respect to the uncovered tranche of the export credit in question (or sometimes as the non-ECA covered part of a syndicated loan) may represent the best match to ECA cover. Pricing on such un-covered portions or non-covered parts should only be used if provided on commercial terms (*e.g.* this would exclude IFI funded portions).

Name-Specific Corporate Bonds

Corporate bonds reflect name specific credit risk. Care should be used in matching in terms of the ECA contract characteristics, such as term of maturity, and currency denomination, and any credit enhancements. If primary corporate bonds (*i.e.* all-in yield upon issuance) or secondary corporate bonds (*i.e.* the option adjusted spread over the appropriate curve, which is usually the relevant currency swap curve) are used, those for the obligor should be used in the first instance; if not available, primary or secondary corporate bonds from Related Entities may be used.

Name-Specific Credit Default Swaps

Credit Default Swaps (CDS) are a form of protection against default. The CDS spread is the amount paid per period by the buyer of the CDS as a percentage of notional principal, and is usually expressed in basis points. The CDS buyer effectively buys insurance against default by making payments to the seller of the CDS for the life of the swap, or until the credit event occurs. A CDS curve for the obligor should be used in the first instance; if not available, CDs curves from Related Entities may be used.

Loan Benchmarks

Primary loan benchmarks (*i.e.* pricing upon issuance) or secondary loan benchmarks (*i.e.* the current yield on the loan expected by the financial institution purchasing the loan from another financial institution). All fees must be known for primary loan benchmarks so that the all-in yield can be calculated. If loan benchmarks are used, those for the obligor should be used in the first instance; if not available, those from similar entities may be used.

Benchmark Market Curves

Benchmark market curves reflect the credit risk of a whole sector or class of buyers. This market information may be relevant when name specific information is not available. In general, the quality of the information inherent to these markets depends upon their liquidity. In any case, one should look for market instruments that provide the closest match in terms of the ECA contract characteristics, such as date, credit rating, term of maturity, and currency denomination.

ANNEX VIII: CRITERIA AND CONDITIONS GOVERNING THE APPLICATION OF A THIRD PARTY REPAYMENT GUARANTEE AND THE CRITERIA FOR ASSESSING MULTILATERAL OR
REGIONAL INSTITUTIONS

PURPOSE

This Annex provides the criteria and conditions that govern the application of third party repayment guarantees according to Article 21 e) of the Arrangement. It also provides the criteria by which multilateral or regional institutions should be assessed when determining if an institution should be subject to the premium rules for Market Benchmark Transactions in Article 21 c) of the Arrangement.

APPLICATION

Case 1: Guarantee for the Total Amount at Risk

When security in the form of a repayment guarantee from an entity is provided for the total amount at risk (*i.e.* principal and interest), the applicable Country Risk Classification and Buyer Risk Category may be that of the guarantor when the following criteria are met:

- The guarantee covers the entire duration of the credit.
- The guarantee is irrevocable, unconditional and available on-demand.
- The guarantee is legally valid and capable of being enforced in the guarantor country's jurisdiction.

- The guarantor is creditworthy in relation to the size of the guaranteed debt.
- The guarantor is subject to the monetary control and transfer regulations of the country in which it is located, except when the guarantor is a multilateral institution that the Participants have agreed is generally exempt from such controls and limitations.

If the guarantor is a subsidiary/parent of the guaranteed entity, Participants shall, on a case-by-case basis, determine whether: (1) in consideration of the relationship between the subsidiary/parent and the degree of legal commitment of the parent, the subsidiary/parent is legally and financially independent and could fulfil its payment obligations; (2) the subsidiary/parent could be affected by local events/regulations or sovereign intervention; and (3) the Head Office would in the event of a default regard itself as being liable.

Case 2: Guarantee Limited in Amount

When security in the form of a repayment guarantee from an entity is provided for a limited amount at risk (*i.e.* principal and interest), the applicable Country Risk Classification and Buyer Risk Category may be that of the guarantor for the portion of the credit subject to the guarantee, providing that all other relevant criteria listed under Case 1 are met.

For the unguaranteed portion, the applicable Country Risk Classification and Buyer Risk Category is that of the obligor.

Criteria for the Assessment of Multilateral or Regional Institutions

The Participants may agree that a multilateral or regional institution is subject to the premium rules for Market Benchmark Transaction in Article 21 c) if the institution is generally exempt from the monetary control and transfer regulations of the country in which it is located. Such institutions shall be assessed on a case-by-case basis on their own merits and in consideration of whether:

- the institution has statutory and financial independence;
- all of the institution's assets are immune from nationalisation or confiscation;
- the institution has full freedom of transfer and conversion of funds;
- the institution is not subject to government intervention in the country where it is located;
- the institution has tax immunity; and
- there is an obligation of all its Member countries to supply additional capital to meet the institution's obligations.

The assessment should also take into consideration the historical payment record in situations of country credit risks default either in the country where it is located or in an obligor's country, and any other factors that may be deemed appropriate in the assessment process.

The list of such multilateral and regional institutions is not closed and a Participant may nominate an institution for review according to the above-listed considerations. The list of multilateral and regional institutions that are subject to the premium rules for Market Benchmark Transaction in Article 21 c) shall be made public by the Participants.

ANNEX IX: BUYER RISK CATEGORIES QUALITATIVE DESCRIPTIONS

Better than Sovereign (SOV+)

This is an exceptional classification. The entity achieving such a classification is one with an exceptionally strong credit profile that could be expected to fulfil its payment obligations during a period of sovereign debt distress or even default. International Credit Rating Agencies issue regular reports listing Corporate and Counterparty Ratings that exceed the Sovereign's Foreign Currency Rating. Except when the risk sovereign has been identified through the Sovereign Risk Assessment Methodology as being significantly higher than country risk, Participants proposing that an entity be classified as better than sovereign shall reference such better than sovereign ratings in support of their recommendation. In order to be classified as better than its host sovereign, an entity would be expected to display several or normally a majority of the following characteristics or equivalents:

- a strong credit profile;
- substantial foreign exchange earnings relative to its currency debt burden;
- production facilities and cash generation ability from subsidiaries or operations offshore, especially those domiciled in highly rated sovereigns, *i.e.* multinational enterprises;
- a foreign owner or a strategic partner which could be relied on as a source of financial support in the absence of a formal guarantee;

- a history of preferential treatment of the entity by the sovereign, including exemption from transfer and convertibility constraints and surrender requirements for export proceeds, and favourable tax treatment;

- committed credit lines from highly rated international banks, especially credit lines without a material adverse change (MAC) clause which enable banks to withdraw committed facilities in the event of a sovereign crisis or other risk events; and

- assets held offshore, especially liquid assets, often as a result of rules allowing exporters to trap and maintain cash balances offshore that are available for debt service.

Normally the SOV+ buyer risk category is not applicable to:

- publicly-owned entities and utilities, sub-sovereigns as line ministries, regional governments, etc;

- financial institutions domiciled in the sovereign's jurisdiction; and

- entities primarily selling to the domestic market in local currency.

Sovereign (SOV)

Sovereign obligors/guarantors are entities that are explicitly legally mandated to enter into a debt payment obligation on the behalf of the Sovereign State, typically Ministry of Finance or Central bank[1]. A risk designated as sovereign is one where:

- the obligor/guarantor is legally mandated to enter into a debt payment obligation on behalf of the Sovereign and thereby commits the full faith and credit of the sovereign; and
- in the event of rescheduling of sovereign risk, the debt in question would be included in the rescheduling and payment obligations acquired by the sovereign by virtue of the rescheduling.

Equivalent to the Sovereign (CC0): Exceptionally Good Credit Quality

The "equivalent to sovereign" category embraces two basic types of obligors/guarantors:

- Public entities where due diligence reveals that either the buyer has the implicit full faith and credit/support of the sovereign or that the likelihood of sovereign liquidity and solvency support is very high, both in relation to recovery prospects as well as default risk. Non-sovereign public entities equivalent to the sovereign would also include companies owned by the government with a monopoly or near monopoly on operations in a sector (*e.g.* power, oil, gas).

[1] Most typically this would be a risk on the central bank or Ministry of Finance. For central government entities other than the finance ministry, due diligence shall be undertaken to affirm that the entity commits the full faith and credit of the sovereign.

- Corporate entities with an exceptionally strong credit profile, displaying features in terms of both default and recovery prospects, which indicate that the risk could be seen as being equivalent to sovereign. Candidates could include strong blue chip corporates or very important banks for which the likelihood of sovereign liquidity and solvency support is high.

Exceptionally good credit quality implies that the risk of payment interruption is expected to be negligible and that the entity has an exceptionally strong capacity for repayment and this capacity is not likely to be affected by foreseeable events. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the entity's business and financial profile:

- exceptionally good to very good cash and income generation
- exceptionally good to very good liquidity levels
- exceptionally low to very low leverage
- excellent to very strong business profile with proven and very strong management abilities

The entity is also characterised by a high quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC0 would be rated between AAA (Country Category 1) and B (Country Category 7) by accredited CRAs.

Very Good Credit Quality (CC1)

The risk of payment interruption is expected to be low or very low. The obligor/guarantor has a very strong capacity for repayment and this capacity is not likely to be affected by foreseeable events. The obligor/guarantor has a limited or very limited susceptibility to adverse effects of changes in circumstances and economic conditions. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the business and financial profile:

- very good to good cash and income generation
- very good to good liquidity levels
- very low to low leverage
- very strong business profile with proven management abilities

The entity is also characterised by a high quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC1 would be rated between AAA (Country Category 1) and B (Country Category 7) by accredited CRAs.

Good to Moderately Good Credit Quality, Above Average (CC2)

The risk of payment interruption is expected to be low. The obligor/guarantor has a good to moderately good capacity for repayment and this capacity is not likely to be affected by foreseeable events. The obligor/guarantor has a limited susceptibility to adverse effects of changes in circumstances and economic conditions. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the business and financial profile:

- good to moderately good cash and income generation
- good to moderately good liquidity levels
- low to moderately low leverage
- moderately strong business profile with proven management abilities

The entity is also characterised by a high quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC2 would be rated between A+ (Country Category 1) and B- or worse (Country Category 7) by accredited CRAs.

Moderate Credit Quality, Average (CC3)

The risk of payment interruption is expected to be moderate or moderately low. The obligor/guarantor has a moderate or moderately good capacity for repayment. There is a possibility of credit risk developing as the obligor/guarantor faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely payments. However, business or financial alternatives may be available to allow financial commitments to be met. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the business and financial profile.

- moderately good to moderate cash and income generation
- moderately good to moderate liquidity levels
- moderately low to moderate leverage
- moderate business profile with proven management abilities

The entity is also characterised by an adequate quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC3 would be rated between BBB+ (Country Category 1) and B- or worse (Country Category 6) by accredited CRAs.

Moderately Weak Credit Quality, Below Average (CC4)

The risk of payment interruption is expected to be moderately weak. The obligor/guarantor has a moderate to moderately weak capacity for repayment. There is a possibility of credit risk developing as the obligor/guarantor faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely payments. However, business or financial alternatives may be available to allow financial commitments to be met. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the business and financial profile:

- moderate to moderately weak cash and income generation
- moderate to moderately weak liquidity levels
- moderate to moderately high leverage
- moderately weak business profile with limited track record of management abilities

The entity is also characterised by an adequate quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC4 would be rated between BB+ (Country Category 1) and B- or worse (Country Category 5) by accredited CRAs.

Weak Credit Quality (CC5)

The risk of payment interruption is expected to be high to very high. The obligor/guarantor has a moderately weak to weak capacity for repayment. The obligor/guarantor currently has the capacity to meet repayments but a limited margin of safety remains. However, there is a likelihood of developing payment problems as the capacity for continued payment is contingent upon a sustained, favourable business and economic environment. Adverse business, financial, or economic conditions will likely impair capacity or willingness to repay. The credit quality is typically manifested in a combination of some, if not all, of the following characteristics of the business and financial profile:

- moderately weak to weak to very weak cash and income generation
- moderately weak to weak liquidity levels
- moderately high to high leverage
- weak business profile with limited or no track record of management abilities

The entity is also characterised by a poor quality of financial and ownership disclosure, unless there is a very high likelihood of support from a parent (or sovereign) with a buyer risk classification that is equal to or better than what corresponds to this buyer risk category.

Depending on the classification of the country in which the obligor/guarantor is domiciled, it is likely that an obligor/guarantor classified in buyer risk category CC5 would be rated between BB- (Country Category 1) and B- or worse (Country Category 4) by accredited CRAs.

ANNEX X: CRITERIA AND CONDITIONS GOVERNING THE APPLICATION OF COUNTRY RISK MITIGATION TECHNIQUES AND BUYER RISK CREDIT ENHANCEMENTS

PURPOSE

This Annex provides detail on the use of country risk mitigation techniques listed in Article 26 a) of the Arrangement and the buyer risk credit enhancements listed in Article 27 a) of the Arrangement; this includes the criteria, conditions and specific circumstances which apply to their use as well as the impact on the MPRs.

COUNTRY RISK MITIGATION TECHNIQUES

1. Offshore Future Flow Structure Combined with Offshore Escrow Account

Definition:

A written document, such as a deed or a release or trustee arrangement, sealed and delivered to a third party, *i.e.* a person not party to the instrument, to be held by such third party until the fulfilment of certain conditions and then to be delivered by it to the other party to take effect. If the following criteria are satisfied subject to consideration of the additional factors listed, this technique can reduce or eliminate the transfer risks, mainly in the higher risk country categories.

Criteria:

- The escrow account is related to a foreign exchange-earning project and the flows into the escrow account are generated by the project itself and/or by other offshore export receivables.

- The escrow account is held offshore, *i.e.* located outside of the country of the project where there are very limited, transfer or other country risks (*i.e.* in a High Income OECD country or High Income Euro Area country).

- The escrow account is located in a first class bank, which is not directly or indirectly controlled by interests of the obligor or by the country of the obligor.

- The funding of the account is secured through long-term or other appropriate contracts.

- The combination of the sources of revenues (*i.e.* generated by the project itself and/or the other sources) of the obligor flowing through the account are in hard currency and can reasonably be expected to be collectively sufficient for the service of the debt for the entire duration of the credit, and come from one or more creditworthy foreign customers located in better risk countries than the country in which the project is located (*i.e.* normally High Income OECD countries or High Income Euro Area countries).

- The obligor irrevocably instructs the foreign customers to pay directly into the account (*i.e.* the payments are not forwarded through an account controlled by the obligor or through its country).

- The funds which have to be kept within the account are equal to at least six months of debt service. Where flexible repayment terms are being applied under a project finance structure, an amount equivalent to the actual six months debt service under such flexible terms are to be kept within the account; this amount may vary over time depending on the debt service profile.

- The obligor has restricted access to the account (*i.e.* only after payment of the debt service under the credit).

- The revenues deposited in the account are assigned to the lender as direct beneficiary, for the entire life of the credit.

- The opening of the account has received all the necessary legal authorisations from the local and any other appropriate authorities.

- The escrow account and contractual arrangements may not be conditional and/or revocable and/or limited in duration.*Additional factors to be taken into consideration:*

The technique applies subject to a case-by-case consideration of the above characteristics and, *inter alia*, with regard to:

- the country, the obligor (*i.e.* either public or private), the sector, the vulnerability in relation to the commodities or services involved, including their availability for the entire duration of the credit, the customers;

- the legal structures, *e.g.* whether the mechanism is sufficiently immune against the influence of the obligor or its country;
- the degree to which the technique remains subject to government interference, renewal or withdrawal;
- whether the account would be sufficiently protected against project related risks;
- the amount which will flow into the account and the mechanism for the continuation of appropriate provision;
- the situation with regard to the Paris Club (*e.g.* possible exemption);
- the possible impact of country risks other than the transfer risk;
- the protection against the risks of the country where the account is located;
- the contracts with the customers, including their nature and duration; and
- the global amount of the expected foreign earnings in relation to the total amount of the credit.

Impact on the MPR

The application of this country risk mitigation technique may result in a one category improvement in the applicable country risk classification for the transaction, except for transactions in Country Risk Category 1.

2. Local Currency Financing

Definition:

Contract and financing negotiated in convertible and available local, other than hard, currencies and financed locally that eliminates or mitigates the transfer risk. The primary debt obligation in local currency would, in principle, not be affected by the occurrence of the first two country credit risks.

Criteria:

- The ECA liability and claims payment or the payment to the Direct Lender are expressed/ made throughout in local currency.
- The ECA is normally not exposed to the transfer risk.
- In the normal course of events, there will be no requirement for local currency deposits to be converted into hard currency.
- The borrower's repayment in its own currency and in its own country is a valid discharge of the loan obligation.
- If a borrower's income is in local currency the borrower is protected against adverse exchange rate movements.
- Transfer regulations in the borrower's country should not affect the borrower's repayment obligations, which would remain in local currency.

Additional factors to be taken into consideration:

The technique applies on a selective basis in respect of convertible and transferable currencies, where the underlying economy is sound. The Participant ECA should be in a position to meet its obligations to pay claims expressed in its own currency in the event that the local currency becomes either 'non-transferable' or 'non-convertible' after the ECA takes on liability. (A Direct Lender would however carry this exposure.)

Impact on the MPR

The application of this risk mitigation technique may result in a discount of no more than 20% to the country credit risk portion of the MPR (*i.e.* a local currency factor [LCF] with a value of no more than 0.2).

BUYER RISK CREDIT ENHANCEMENTS

The following table provides definitions of the buyer risk credit enhancements that may be applied, along with their maximum impact on the applicable MPRs. For transactions subject to country risk category 1-7 MPRs, the maximum CEF used in the MPR formula is stipulated; for market benchmark transactions, the maximum discount to the applicable Market Benchmark MPR is stipulated[1].

[1] For a Market Benchmark Transaction, the premium rate resulting from the application of buyer risk credit enhancements may not be lower than the applicable Minimum Actuarial Premium.

Credit Enhancement	Definition	Maximum CEF (Country Risk Category 1-7)	Maximum Discount (Market Benchmark)
Assignment of Contract Proceeds or Receivables	In the event a borrower has contracts with strong off-takers, whether offshore or local, a legally enforceable assignment of the contract provides rights to enforce the borrower's contracts and/or make decisions under major contracts in the place of the borrower after a default under the loan. A direct agreement with a third party in a transaction (a local government agency in a mining or energy transaction) allows Lenders to approach a government to seek remedies for expropriation or other violation of contractual obligations related to the transaction. An existing company operating in a difficult market or sector may have receivables related to the sale of production with a company or companies located in a more stable environment. Receivables would generally be in a hard currency but may not be the subject of a specific contractual relationship. Assignment of these receivables could provide asset security in the accounts of the Borrower, giving the Lender a preferential treatment in the cash flow generated by the Borrower.	0.10	N/A
Asset Based Security	Control of an asset shown by: (1) mortgage on very mobile and valuable piece of property and	0.25	15%

	(2) property that has entire value in itself. An asset based security is one that can be reacquired with relative ease such as a locomotive, medical equipment or construction equipment. In valuing such a security, the ECA should take into consideration the legal ease of recovery. In other words, there is more value when the security interest in the asset is perfected under an established legal regime and less value where the legal ability to recover the asset is questionable. The precise value of an asset-based security is set by the market, with the relevant "market" being deeper than a local market because the asset can be moved to another jurisdiction. NOTE: The application of an asset based security credit enhancement for transactions subject to country risk category 1-7 MPRs applies to the buyer risk, where the asset based security is held internally within the country in which the transaction is domiciled.		
Fixed Asset Security	A fixed asset security is most typically component equipment which may be constrained by its physicality such as turbine or manufacturing machinery integrated into an assembly line. The intent and value of the fixed asset security is to provide the ECA with more leverage over the use of the asset in recouping losses in the event of default. The value of a fixed asset security varies dependent on economic, legal, market and other factors.	0.15	10%
Escrow Accoun t	Escrow accounts involve debt service reserve accounts held as security for the lenders or other forms of cash receivable accounts held as security for the lenders by a party not controlled or sharing common ownership with the buyer/obligor. The	escrowed amount as % of credit up to a maximum	escrowed amount as % of credit up to a maximum

	escrowed amount must be deposited or escrowed in advance. The value of such security is nearly always 100% of the nominal amount in such cash accounts. Permits greater control over use of cash, ensures that debt is serviced before discretionary spending. NOTE: The application of an escrow account credit enhancement for transactions subject to country risk category 1-7 MPRs applies to the buyer risk, where the escrow account is held internally within the country in which the transaction is domiciled. Cash security significantly diminishes the risk of default for the covered instalments.	of 0.10	of 10%

ANNEX XI: CHECKLIST OF DEVELOPMENTAL QUALITY

CHECKLIST OF DEVELOPMENTAL QUALITY OF AID FINANCED PROJECTS

A number of criteria have been developed in recent years by the DAC to ensure that projects in developing countries that are financed totally or in part by Official Development Assistance (ODA) contribute to development. They are essentially contained in the:

- DAC Principles for Project Appraisal, 1988;
- DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance, 1987; and
- Good Procurement Practices for Official Development Assistance, 1986. Of these, the DAC Principles for Project Appraisal and the Good Procurement Practices for Official Development Assistance were, together with several other 'principles' or 'good practices' the DAC produced, published together in the Development Assistance Manual, DAC Principles for Effective Aid (DAM) in 1992.

CONSISTENCY OF THE PROJECT WITH THE RECIPIENT COUNTRY'S OVERALL INVESTMENT PRIORITIES (PROJECT SELECTION)

Is the project part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country?

(Specify policy document mentioning the project, *e.g.* public investment programme of the recipient country.)

Is the project being co-financed with an international development finance institution?

Does evidence exist that the project has been considered and rejected by an international development finance institution or another DAC Member on grounds of low developmental priority?

In the case of a private sector project, has it been approved by the government of the recipient country?

Is the project covered by an intergovernmental agreement providing for a broader range of aid activities by the donor in the recipient country?

PROJECT PREPARATION AND APPRAISAL

Has the project been prepared, designed and appraised against a set of standards and criteria broadly consistent with the DAC Principles for Project Appraisal from paragraphs 91-162 of the DAM? Relevant principles concern project appraisal under:

a) Economic aspects (paragraphs 120 to 128 DAM).

b) Technical aspects (paragraph 112 DAM).

c) Financial aspects (paragraphs 113 to 119 DAM).

In the case of a revenue producing project, particularly if it is producing for a competitive market, has the concessionary element of the aid financing been passed on to the end-user of the funds? (paragraph 115 DAM).

a) Institutional assessment (paragraphs 130 to 134 DAM).

b) Social and distributional analysis (paragraphs 137 to 147 DAM).

c) Environmental assessment (paragraphs 145 to 147 DAM).

PROCUREMENT PROCEDURES

What procurement mode will be used among the following? (For definitions, see Principles listed in Good Procurement Practices for ODA from paragraphs 409-429 of the DAM).

a) International competitive bidding (paragraphs 411 and 419-429 DAM: Minimum conditions for effective international competitive bidding).

b) National competitive bidding (paragraph 412 DAM).

c) Informal competition or direct negotiations (paragraphs 413-414 DAM).

Is it envisaged to check price and quality of supplies (paragraph 153 DAM)?

ANNEX XII: COMMERCIAL INTEREST REFERENCE RATE (CIRR) PROVISIONS

SECTION 1: CONSTRUCTION OF THE CIRR

1. A CIRR shall be established for each Participant's currency, provided that the required data is made available to the Secretariat. A Participant or a non-Participant may request that a CIRR be established for the currency of a non-Participant. In consultation with the interested non-Participant, a Participant or the Secretariat on behalf of that non-Participant may make a proposal for the construction of the CIRR in that currency.

2. Other Participants shall use the CIRR set for a particular currency should they decide to finance in that currency.

3. The CIRR is composed of a base rate and a margin.

4. The minimum CIRR for any currency shall be no lower than 15 basis points.

ESTABLISHMENT OF THE BASE RATE

5. CIRR rates shall be calculated monthly and will take effect on the 15th day of each month.

6. CIRR base rates are computed using government bond yields.

7. The maturity of the government bond to be used for each transaction shall be determined according to the following formula: Drawdown Period + 0.5 Repayment Period + 0.5 Repayment Frequency in years[36] (for standard repayment profiles). For transactions with a non-standard repayment profile, the following formula shall be applied: DP + $[\sum_{i=1}^{n}\left(t_{li} - t_{sp}\right) * D_{li}] / \sum_{i=1}^{n} D_{li} * 1/365]$[37]. The result will be rounded to the nearest year, capped at ten years and floored at three years.

8. Participants shall compute the bond yields using the arithmetic mean of all the daily yields of the 3, 4, 5, 6, 7, 8, 9 and 10-year government bonds of the previous calendar month for their respective currencies. Those yields shall be reported to the Secretariat no later than five days after the end of each month and shall be made publicly available on a monthly basis.

9. Participants may use linear interpolation in order to achieve the necessary yields as long as it is within the interpolation region of 2-year government bonds up to and including 15-year government bonds. Extrapolation to a lower or higher bond yield shall not be allowed.

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[36] Repayment Frequency for annual repayment = 1, for semi-annual repayments = 0.5 and for quarterly repayments = 0.25.

[37] t_{li} = date of the i_{st} installment; t_{sp} = date of the starting point ; D_{li} = amount paid at the i_{st} installment.

10. In the event where the data for one or more of the necessary government bonds could not be obtained (according to Articles 8 and 9), there will be no CIRR in that currency for transactions requiring such maturities (Article 7 refers) unless the missing data concerns shorter maturities and data for higher maturities (up to 10 years) has been provided. In such event, the yields of the nearest higher government bond shall be used to compute the base rates requiring such shorter maturities.

ESTABLISHMENT OF THE MARGIN[38]

11. The margin shall be calculated on a quarterly basis (respectively on 15 January, 15 April, 15 July and 15 October of each year) according to the five-year swap spread yields (difference between the five-year government bond rate and the five-year swap rate).

12. The margin shall be computed using the following formula: 0.5 * (three-month average of daily five-year swap spread yields) + 80 basis points. The result shall be rounded to the nearest basis point and capped at a maximum of 120 basis points and floored at a minimum of 80 basis points.

13. The three-month average of the daily five-year swap spreads to be used shall be obtained by calculating the arithmetic mean of the daily five-year swap spread of the last three calendar months in the relevant currencies. They shall be reported to the Secretariat no later than five days after the end of each quarter.

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38 Following the discontinuation of Libor, Participants agreed on 30 December 2022 to implement a temporary margin of 100 basis points for all currencies for one year as of the implementation of the new CIRR rules (*i.e.*, until 14 July 2024) or until Participants can agree to an alternative.

14. In the event where the five-year swap spread is not available in the market for a given currency, the margin shall be set at 100 bps.

15. The resulting margins shall be made publicly available at the beginning of each quarter.

SECTION 2: APPLICATION OF THE CIRR

16. Where official financing support is provided for floating rate loans, banks and other financing institutions shall not be allowed to offer the option of the lower of either the CIRR (at time of the original contract) or the short-term market rate throughout the life of the loan.

VALIDITY PERIOD OF CIRR

17. A CIRR may be locked in before, at, or after the Date of Financial Contract (DFC).

18. In the case where a CIRR is locked in and held prior to DFC, the Holding Period shall not exceed 12 consecutive months[39], the length of the Holding Period shall be decided at the latest at the Date of Quote (DoQ), and an additional spread shall be added to the applicable CIRR according to the table below:

[39] If there is a reset of the CIRR, it resets the countdown for the number of months back to zero.

Holding Period (in months)	Cost of Holding Period (basis points)
1 - 6	20
7	23
8	26
9	30
10	34
11	39
12	44

19. If the Holding Period lapses prior to the DFC, the CIRR rate may be reset immediately or at a later time and held for a new Holding Period. If the signature of the commercial contract (SCC) has occurred prior to the reset, the reset rate shall not be lower than the latest previously locked-in rate. There is no limit to the number of times a CIRR may be reset.

20. Any change in the Interest Accrual Period prior to or at DFC shall trigger a recalculation of the CIRR base rate. Such recalculation shall be based on the new Interest Accrual Period using the base rates in effect at the initial DoQ; it shall not be considered as a reset or a cancellation of the CIRR rate.

COMMITMENT FEE

21. A commitment fee shall be charged for direct credits. If the CIRR was locked in prior to or at DFC, the commitment fee shall be charged immediately following DFC. If the CIRR was locked in after DFC, then it shall be charged immediately following DoQ.

22. Participants shall charge a commitment fee at or above commercial market practices provided that such information is available.

VOLUNTARY CANCELLATION AND VOLUNTARY PREPAYMENT

23. If a CIRR rate is voluntarily cancelled, any subsequent CIRR rate that is quoted for the same transaction and the same exporter shall be no lower than the latest previously quoted CIRR.

24. Prior to DFC, there is no cost for cancelling a CIRR rate or switching to a floating rate.

25. Once the DFC has occurred and irrespective of when the CIRR was set, in the event of voluntary cancellation or voluntary prepayment of a loan or any portion thereof, the borrower shall compensate the government institution providing official support for all costs and losses incurred as a result of such early prepayment or voluntary cancellation. This includes the costs to the government institution of replacing the part of the expected fixed rate cash inflow interrupted by the early prepayment or voluntary cancellation.

SECTION 3: TRANSITIONAL AGREEMENTS

26. The provisions set out in this Annex shall come into force on 15 July 2023 for transactions committed from that date onwards.

ANNEX XIII: LIST OF DEFINITIONS

For the purpose of the Arrangement:

a) **Commitment**: any statement, in whatever form, whereby the willingness or intention to provide official support is communicated to the recipient country, the buyer, the borrower, the exporter or the financial institution.

b) **Common Line**: an understanding between the Participants to agree, for a given transaction or in special circumstances, on specific financial terms and conditions for official support. The rules of an agreed Common Line supersede the rules of the Arrangement only for the transaction or in the circumstances specified in the Common Line.

c) **Concessionality Level of Tied Aid**: in the case of grants the concessionality level is 100%. In the case of loans, the concessionality level is the difference between the nominal value of the loan and the discounted present value of the future debt service payments to be made by the borrower. This difference is expressed as a percentage of the nominal value of the loan.

d) **Date of Financial Contract (DFC)**: the date at which all parties to the Financial Contract are bound, taking into account any entailing legal obligations.

e) **Date of Quote (DoQ)**: the date at which a CIRR is locked-in.

f) **Decommissioning**: closing down or dismantling of a nuclear power plant.

g) **Export Contract Value**: the total amount to be paid by or on behalf of the purchaser for goods and/or services exported, *i.e.* excluding local costs as defined hereafter; in the case of a lease, it excludes the portion of the lease payment that is equivalent to interest.

h) **Final Commitment**: for an export credit transaction (either in the form of a single transaction or a line of credit), a final commitment exists when the Participant commits to precise and complete financial terms and conditions, either through a reciprocal agreement or by a unilateral act.

i) **Holding Period**: the period starting at DoQ and ending at DFC.

j) **Initial Fuel Load**: the initial fuel load shall consist of no more than the initially installed nuclear core plus two subsequent reloads, together consisting of up to two-thirds of a nuclear core.

k) **Interest Accrual Period**: the period during which interest accrues (i.e., from first disbursement until the last repayment of principal: drawdown period + repayment period).

l) **Interest Rate Support**: an arrangement between a government and banks or other financial institutions which allows the provision of fixed rate export finance at or above the CIRR.

m) **Line of Credit**: a framework, in whatever form, for export credits that covers a series of transactions which may or may not be linked to a specific project.

n) **Local Costs**: expenditure for goods and services in the buyer's country that are necessary either for executing the exporter's contract or for completing the project of which the exporter's contract forms a part. These exclude commission payable to the exporter's agent in the buying country.

o) **Market Benchmark Transaction**: transaction involving ultimate obligors/guarantors in Category 0 countries, High Income OECD countries and High Income Euro Area countries.

p) **Minimum Actuarial Premium**: is the annualised average default rate (derived from cumulative default rates published by the main Accredited CRAs) for a given rating and total term (WAL of the whole transaction) adjusted by an assumed loss given default and a costs loading factor as per agreed conventions by the Participants.

q) **Name Specific Bond or CDS**: a Name Specific Bond or CDS is limited to those market benchmark instruments that belong to the exact identical obligor/guarantor as in the transaction being supported.

r) **Pure Cover**: official support provided by or on behalf of a government by way of export credit guarantee or insurance only, *i.e.* which does not benefit from official financing support.

s) **Related Entity**: Related Entity references are benchmark instruments of a related borrower rather than the exact identical borrower in the supported transaction. In the case where the obligor has no quoted bonds or CDSs, and there exists within the obligor's organisational structure a parent, subsidiary or sister company with Name Specific Bonds or CDSs outstanding in the market, then with regard to Article 21 c), those Name Specific Bonds or CDSs may be used as if they had been issued by the obligor itself if:

1) The parent, subsidiary, or sister company has the same issuer CRA rating as the obligor/guarantor; or

2) All of the following criteria are met:

   i. The Participant's internal rating of the obligor/guarantor corresponds with the CRA rating of the related entity.

   ii. The obligor/guarantor is the main operating company of the parent/holding, being a key and integral part of the group's business.

   iii. The CRA rating is based on the core business of the group.

   iv. The obligor/guarantor provides a significant part of the group's earnings by providing 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.

   v. 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.

vi. A default of the obligor/guarantor would constitute a huge reputational risk to the group, damage its franchise and could threaten its viability.

vii. 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.

t) **Repayment Term**: the period beginning at the starting point of credit, as defined in this Annex, and ending on the contractual date of the final repayment of principal.

u) **Starting Point of Credit**:

1) *Parts or components (intermediate goods) including related services*: in the case of parts or components, the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods (including services, if applicable) by the buyer or, for services, the date of the submission of the invoices to the client or acceptance of services by the client.

2) *Quasi-capital goods, including related services - machinery or equipment, generally of relatively low unit value, intended to be used in an industrial process or for productive or commercial use*: in the case of quasi-capital goods, the starting point of credit is not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods by the buyer or, if the exporter has responsibilities for commissioning, then the latest starting point is at commissioning, or for services, the date of the submission of the invoices to the client or acceptance of the service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

3) *Capital goods and project services - machinery or equipment of high value intended to be used in an industrial process or for productive or commercial use*:

- In the case of a contract for the sale of capital goods consisting of individual items usable in themselves, the latest starting point is the actual date when the buyer takes physical possession of the goods, or the weighted mean date when the buyer takes physical possession of the goods.

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point is the date at which the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- If the exporter has responsibility for commissioning, the latest starting point is at commissioning.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

4) *Complete plants or factories – complete productive units of high value requiring the use of capital goods:*

- In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point of credit is the date when the buyer takes physical possession of the entire equipment (excluding spare parts) supplied under the contract.

- In case of construction contracts where the contractor has no responsibility for commissioning, the latest starting point is the date when construction has been completed.

- In the case of any contract where the supplier or contractor has a contractual responsibility for commissioning, the latest starting point is the date when it has completed installation or construction and preliminary tests to ensure it is ready for operation. This applies whether or not it is handed over to the buyer at that time in accordance with the terms of the contract and irrespective of any continuing commitment which the supplier or contractor may have, *e.g.* for guaranteeing its effective functioning or training local personnel.

- Where the contract involves the separate execution of individual parts of a project, the date of the latest starting point is the date of the starting point for each separate part, or the mean date of those starting points, or, where the supplier has a contract, not for the whole project but for an essential part of it, the starting point may be that appropriate to the project as a whole.

- For services, the latest starting point of credit is the date of the submission of the invoices to the client or the acceptance of service by the client. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point is commissioning.

v) **Tied Aid**: aid which is in effect (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or a restricted number of countries; it includes loans, grants or associated financing packages with a concessionality level greater than zero percent.

This definition applies whether the "tying" is by formal agreement or by any form of informal understanding between the recipient and the donor country, or whether a package includes components from the forms set out in Article 30 of the Arrangement that are not freely and fully available to finance procurement from the recipient country, substantially all other developing countries and from the Participants, or if it involves practices that the DAC or the Participants consider equivalent to such tying.

w) **Untied Aid**: aid which includes loans or grants whose proceeds are fully and freely available to finance procurement from any country.

x) **Weighted Average Life of the Repayment Period**: the time that it takes to retire one-half of the principal of a credit. This is calculated as the sum of time (in years) between the starting point of credit and each principal repayment weighted by the portion of principal repaid at each repayment date.