Supranationals

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Laura Fan, Head of Funding, Treasury - IADB
What are “Triple-A Supranationals”? 

Supranationals (or “multilaterals”) are:

International development institutions that provide financing, advisory services, and/or other financial services to their member countries to achieve the overall goal of improving lives through sustainable economic growth.
Who are the “Triple-A Supranationals”?

- International Bank for Reconstruction and Development (IBRD)
- International Finance Corporation (IFC)
- Inter-American Development Bank (IADB)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- Nordic Investment Bank (NIB)
- African Development Bank (AfDB)
- Asian Development Bank (ADB)

Yellow outline highlights the AAA/Aaa supranationals that have the US as a shareholder.
Key Features of Supranationals

AAA/Aaa credit rating based on:
• Diversified sovereign shareholders
• Prudent risk management
• Quality loan portfolio (Preferred Creditor Treatment)
• Substantial Liquidity
• Strong Capitalization (unique paid-in/callable capital structure)

0% risk weighting with Basel II and III. Level 1 HQLA (High Quality Liquid Asset) with no haircut, compared to Level 2A for GSE issuers under the new Federal Reserve rule

Issuers of various type of debt securities (including USD benchmark globals, callables, FRNs, social/green, etc.)
Why Invest in Supranationals?

- SAFETY: High quality Triple A assets
- RETURN: Financial and social
- DIVERSIFICATION
Can US Investors Buy Supranational Bonds?

Supranational USD bonds issued in Global format are always immediately available to U.S. investors regardless of where they are listed.

Supranational issuers whose membership includes the U.S. are SEC exempt by the federal statutes that authorizes U.S. membership and participation.

Supranational issuers who do not have the U.S. as a shareholder are permitted to issue into the U.S. market after filing a shelf registration statement pursuant to Schedule B to the Securities Act of 1933.*

(Note to US investors: Can buy only bonds issued in Global format. Can buy Eurobonds only after they have seasoned.)
Supranationals of which the U.S. is a member

<table>
<thead>
<tr>
<th>Supranational</th>
<th>Acts of Congress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Development Bank (IADB)</td>
<td>Inter-American Development Bank Act 22 USC 283 et Seq.</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development (EBRD)</td>
<td>European Bank for Reconstruction and Development Act 22 USC 290i</td>
</tr>
</tbody>
</table>

* Schedule B to the Securities Act of 1933 states the requirements for the registration of securities by foreign governments or political subdivisions thereof, updating the shelf by incorporating by reference the latest annual report."
## Inter-American Development Bank (IADB)

### Development purpose
Regional source of development finance for Latin America and the Caribbean.

### Membership
Regional – 48 members

### Year established
1959

### Largest shareholder
United States – 30%

### Balance sheet
$132 bln

### Annual funding program
$15-$20 bln

### SEC exemption*
Yes, but still required to file certain information with SEC under SEC Regulation IA

### Act of Congress authorizing US membership
Inter-American Development Bank Act 22 USC 283 et. Seq.

### Type of lending
PCS Lending to Sovereign or Sovereign guaranteed (approximately 92%) plus Lending to private sector

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## International Finance Corporation (IFC)

### Development purpose
Global source of finance for private enterprise in developing countries.

### Membership
Global – 184 members

### Year established
1956

### Largest shareholder
United States – 22.19%

### Balance sheet
$94 bln

### Annual funding program
$14-$16 bln

### SEC exemption*
Yes

### Act of Congress authorizing US membership

### Type of lending
Lending to or equity investment in Emerging Market private sector entities

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## World Bank (IBRD)

### Development purpose
Global source of funding to member government

### Membership
Global – 189 members

### Year established
1944

### Largest shareholder
United States – 17.58%

### Balance sheet
$403 bln

### Annual funding program
$50-$60 bln

### SEC exemption*
Yes

### Act of Congress authorizing US membership
Bretton Woods Act 22 USC 286 et. Seq.

### Type of lending
Preferred Creditor Status (PCS) Lending to Sovereigns or Sovereign guaranteed only

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What type of debt securities do Washington supras issue?

1. Benchmark Bonds, Global Bonds
2. Other Plain Vanilla Notes (MTNs)
3. Structured Notes
4. Discount Notes
5. Socially Responsible Bonds
Global Bond Characteristics:
- Issued/offered globally to investors in different countries
- Issue size is typically USD1-5 billion
- Maturities generally range between 2-10 years
- Highly liquid due to size, issuer recognition and investor diversification
- Available to all U.S. investors; QIBs, Private & Public Sector, Retail

Strong dealer commitment to secondary market support

IADB/IFC/World Bank bonds are represented in the following major indices:
- Barclays Capital Global Aggregate Index
- Bank of America Merrill Lynch Global Broad Market Quasi-GovtIndex
- Citigroup World Broad Investment-Grade (WorldBIG) Bond Index
- Smaller MTN transactions customized to meet specific investor needs, e.g. size, maturity

- Various formats, including fixed and floating rate notes (FRNs)
Can US Investors Buy Supranational Bonds?

- Capital Protection and AAA/Aaa rating
- Tailor Made Solutions
- Buyback Alternative to enhance liquidity
- Confidentiality
- Standardized documentation
- Pricing comparable to GSEs
<table>
<thead>
<tr>
<th></th>
<th>IADB</th>
<th>IFC</th>
<th>IBRD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ratings</strong></td>
<td>A–1+ by S&amp;P and P–1 by Moody’s</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maturities</strong></td>
<td>Overnight to 360 days</td>
<td>Overnight to 360 days</td>
<td>Overnight to 397 days</td>
</tr>
<tr>
<td><strong>Documentation</strong></td>
<td>Governed by Discount Note Offering Circular</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Clearing</strong></td>
<td>Book entry form through the Federal Reserve Bank of NY</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bloomberg Page</strong></td>
<td>IADN&lt;GO&gt; AND&lt;GO&gt;7</td>
<td>IFC&lt;GO&gt; AND&lt;GO&gt;8</td>
<td>WBDN&lt;GO&gt; AND&lt;GO&gt;6</td>
</tr>
<tr>
<td><strong>Outstanding Amount</strong> (as of Sep. 30, 2018)</td>
<td>$1.2bn</td>
<td>$2.6bn</td>
<td>$10.8bn</td>
</tr>
</tbody>
</table>

- Earn “social” returns, in addition to financial returns
- Investors select financial terms like currency, size and maturity
- Benefit from IADB/IFC/World Bank “due diligence” for projects

**IADB EYE (Education/Youth/Employment) Bonds**
- Support primary and secondary education and programs to integrate youth into the employment market

**IFC Green and Social Bonds**
- Green (focused on climate change) and social (includes Banking on Women
  - focused on financing for women-led businesses and Inclusive Business
  - focused on supporting the world’s poorest people)

**World Bank Green Bonds**
- Support mitigation and adaptation (including climate resilience) projects
# Snapshot: Supras and GSEs

<table>
<thead>
<tr>
<th></th>
<th>Washington Supras</th>
<th>GSEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Rating</strong></td>
<td>AAA/Aaa</td>
<td>AAA/AA+</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Many governments, of which the US is the largest shareholder</td>
<td>Shareholders and cooperatives</td>
</tr>
<tr>
<td><strong>Guarantee</strong></td>
<td>No/Callable capital</td>
<td>No/Conservatorship</td>
</tr>
<tr>
<td><strong>Mission</strong></td>
<td>Improving lives through sustainable economic growth</td>
<td>US residential property</td>
</tr>
<tr>
<td><strong>Oversight</strong></td>
<td>Board of Governors composed of representatives from member countries</td>
<td>Federal Housing Finance Agency</td>
</tr>
<tr>
<td><strong>Debt Product Offerings</strong></td>
<td>Benchmark (Global) Bonds Other Plan Vanilla Notes Discount Notes Socially Responsible Bonds</td>
<td>Benchmark (Global) Bonds Other Plain Vanilla Notes Discount Notes</td>
</tr>
<tr>
<td><strong>Geographical Distribution of Debt</strong></td>
<td>Global</td>
<td>Mainly US</td>
</tr>
</tbody>
</table>
There has been a significant decrease in agency term issuance since 2009.

Combined bullet and callable issuance from FNMA, FHLMC and FHLB was 172bn in 2017 vs. 763bn in 2009 (-78%).

In floating coupon, the drop in issuance is less pronounced (62bn in 2017 vs 162bn in 2009) given the recent surge in issuance from FHLB.

Funding programs—Washington Supranationals

Funding volumes have grown as a result of financing increased lending volumes following the global financial crises.

<table>
<thead>
<tr>
<th>Institution</th>
<th>2005</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Development Bank</td>
<td>$ 4.9 bln</td>
<td>$ 19.5 bln</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>$ 2.1 bln</td>
<td>$ 14 bln</td>
</tr>
<tr>
<td>World Bank</td>
<td>$ 12 bln</td>
<td>$ 50 bln</td>
</tr>
</tbody>
</table>
### Funding programs—Washington Supranationals

**Increased volume and number of USD global benchmarks**

<table>
<thead>
<tr>
<th>Institution</th>
<th>2005</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inter-American Development Bank</strong></td>
<td>$1 bln 1 bond</td>
<td>$11 bln 3 bonds</td>
</tr>
<tr>
<td></td>
<td>Maturity: 10 yrs</td>
<td>Maturities: 3, 5 $10 yrs</td>
</tr>
<tr>
<td><strong>International Finance Corporation</strong></td>
<td>$1 bln 1 bond</td>
<td>$4 bln 2 bond</td>
</tr>
<tr>
<td></td>
<td>Maturity: 5 yrs</td>
<td>Maturities: 3 &amp; 5 yrs</td>
</tr>
<tr>
<td><strong>World Bank</strong></td>
<td>$750 mln 1 bond</td>
<td>$9 bln 2 bonds</td>
</tr>
<tr>
<td></td>
<td>Maturity: 30 yrs</td>
<td>Maturities: 3 &amp; 5 yrs</td>
</tr>
</tbody>
</table>
Investor Type Distribution Comparison

**DC Supra Average Breakdown**
- Corp/PF/Ins/FM, 19%
- Banks, 29%
- CB/OI, 52%

**GSE Average Breakdown**
- CB/OI, 21%
- Banks, 16%
- Corp/PF/Ins, 14%
- Fund Manager, 49%

CB/OI: Central Banks and Official Institutions;
Corp/PF/Ins/FM: Corporate, Pension Funds, Insurers and Fund Managers

2018 Benchmark issuance by IBRD, IADB and IFC on DC Supra. FHLMC, FNMA and FHLB on GSE.
Geographical Distribution Comparison

**DC Supra Average Breakdown**
- Americas, 43%
- EMEA, 34%
- Asia, 23%

**GSE Average Breakdown**
- US, 83%
- Europe, 6%
- Americas (ex-US), 9%
- Asia, 2%

EMEA: Europe, Middle East and Africa
Relative Value (Supra vs GSEs)

- Supranationals offer a pick up to GSEs of 5 to 10bps in average in the 3 & 5-yr sectors
- Spread has been as wide as high-teens and as tight as low single-digits in past couple of years

*Agency includes issuers such as the Federal Home Loan Bank, Fannie Mae, Freddie Mac
*SSA references the IADB, IFC, World Bank (IBRD)

Source: Wells Fargo Securities. Oct 16, 2018
## Case Study – IADB vs FNMA

<table>
<thead>
<tr>
<th>IADB</th>
<th>FNMA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue size:</strong></td>
<td>USD 4bn</td>
</tr>
<tr>
<td><strong>Format:</strong></td>
<td>Global</td>
</tr>
<tr>
<td><strong>Rating:</strong></td>
<td>Aaa/AAA</td>
</tr>
<tr>
<td><strong>Coupon:</strong></td>
<td>2.625%</td>
</tr>
<tr>
<td><strong>Issue date:</strong></td>
<td>12-Apr-18</td>
</tr>
<tr>
<td><strong>Maturity:</strong></td>
<td>3-year (Apr 19, 2021)</td>
</tr>
<tr>
<td><strong>Spread Over UST:</strong></td>
<td>CT3+ 22.1</td>
</tr>
<tr>
<td><strong>Spread vs MS:</strong></td>
<td>MS- 3</td>
</tr>
<tr>
<td><strong>Orderbook:</strong></td>
<td>USD 7.5bn+</td>
</tr>
</tbody>
</table>

**Investor Breakdown:**

<table>
<thead>
<tr>
<th>IADB</th>
<th>FNMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>32%</td>
</tr>
<tr>
<td>Europe</td>
<td>29%</td>
</tr>
<tr>
<td>Asia</td>
<td>23%</td>
</tr>
<tr>
<td>Other</td>
<td>16%</td>
</tr>
<tr>
<td>Central Banks</td>
<td>54%</td>
</tr>
<tr>
<td>Bank Treasuries</td>
<td>17%</td>
</tr>
<tr>
<td>State/Local Gov</td>
<td>15%</td>
</tr>
<tr>
<td>Fund Managers</td>
<td>12%</td>
</tr>
<tr>
<td>Corp/Pension/Insurance</td>
<td>2%</td>
</tr>
</tbody>
</table>

The heat map to the right shows the degree to which selected US States and Municipalities within that State allow and invest in Supranational names.

For More Information, Contact Us

Inter-American Development Bank (IADB)

Laura Fan, Head of Funding
lauraf@iadb.org
Phone: 202 623 3772

Andre Delgado, Lead Funding Officer
andred@iadb.org
Phone: 202 623 1381
Thank you!