
LIFT/TCX Facility: Information Memorandum

Introduction

The Livelihoods and Food Securities Trust Fund (LIFT) has granted the execution of a facility to The Currency Exchange Fund (TCX) that will enable foreign development financiers to offer Kyat denominated loans to microfinance institutions (MFIs) in compliance with the maximum interest rate set by the Central Bank of Myanmar (CBM) on foreign lending.

LIFT and TCX have entered into an agreement that prescribes usage of the funds by TCX when it subsidizes the rates it quotes in Myanmar Kyat. This memorandum describes how foreign lenders can benefit from this facility and the conditions attached to it.

General Scope

The facility allows TCX to quote subsidized rates in Myanmar Kyat against the hard currency margin of foreign lenders to meet the cap currently enacted by the CBM (13% in MMK).

Important disclaimer

An allocation is neither a binding quote nor a firm commitment to hedge any transaction in part or full. The ability of TCX to hedge transactions depends on the availability of donor funds that are allocated over time to other transactions and the dynamic nature of our pricing. Our pricing is based on a macro-economic model we update regularly (FPAS). Because the evolution of Kyat rates quoted by TCX have a direct impact on the calculation of the subsidy, TCX can only with a reasonable confidence level allocate capacity to interested parties. TCX cannot be held responsible if the effect of increasing rates affects the amount of money available to support any transactions. TCX reserves the right to re-allocate the capacity, shall rates adversely affect the pool of funds available to subsidize the transactions for which allocations were previously made. Under this scenario, TCX will adjust downward all the allocations previously made pro-rata of the current subsidy available to support all these allocations. An allocation is, therefore, provided on a best effort basis.

Allocation mechanism

Allocation of resources will be done on a first come first serve basis provided that the quote request is sent to LIFT@tcxfund.com and contains the basic information to price the deal (notional in HCY, tenor, amortization schedule, margin of the lender over Libor 6-m). Quotes sent to another address or incomplete will be rejected and will have to be resubmitted to LIFT@tcxfund.com to be taken into account.

MFJ has been instructed to ask its clients to Cc LIFT@tcxfund.com. If a client of MFJ does not copy LIFT@tcxfund.com, the time of recording for the quote request is the moment MFJ has sent its client's request to LIFT@tcxfund.com.

If a quote request fails to meet one of the conditions for an allocation it can be re-submitted the next day following the rejection notified by email.

Start date

Quotes can be submitted as soon as Thursday December 01, 2016 – first minute of the day CET time.

Allocating capacity for how long?

The allocation is valid for 3 months. An extension of 3 months is possible only if the loan has been submitted to the CBM or FRD (or MBSC) during the first period and is still waiting to be approved. After the extension period, the capacity will be re-allocated to another lender.

Conditions to receive an allocation

1. The lender must have an ISDA with TCX or with MFX Solutions
2. The borrower must be an MFI registered in Myanmar
3. The hedge must be of an average maturity of 2 years minimum i.e. 2-yrs bullet minimum.
4. LIFT has defined a maximum credit margin above which the subsidy will not apply. The maximum credit margin is not disclosed to the lender.
5. LIFT has defined a maximum amount of money available for a single transaction. Shall the subsidy required be in excess of the maximum amount available for a single transaction, TCX will limit the swap notional of such a transaction to comply with the rule. The amount available per transaction is not be disclosed to the lender.
6. The lender has to charge a minimum interest rate of at least 13% in Myanmar Kyat.
7. There should be enough subsidy left to support an allocation.
8. The Lender undertakes to certain information requirements via a Side Letter

Any quote rejected can be resubmitted the following day of a rejection.

Side Letter

The lender commits to a series of requirements and representations contained in a side letter. The side letter cannot be altered or amended. It must be signed prior to execution. The side letter key points are:

- Statement of
 - The TCX market rate (%)
 - The subsidized rate (13% in MMK)
 - The amount required to subsidize the transaction (in USD)
- The lender must disclose to TCX the legal entity (MFI) to which it lends money¹.
- The lender commits to fill in the LIFT Monitoring and Evaluation Report. The lender will update and send this report to LIFT on a quarterly basis.
- The lender represents to TCX that there is an explicit mention of the market interest rate in MMK that would have been charged to the borrower without the use of the subsidy as well as the existence of the subsidy in the loan agreement. The market rate is provided by TCX to the lender on the allocation date.

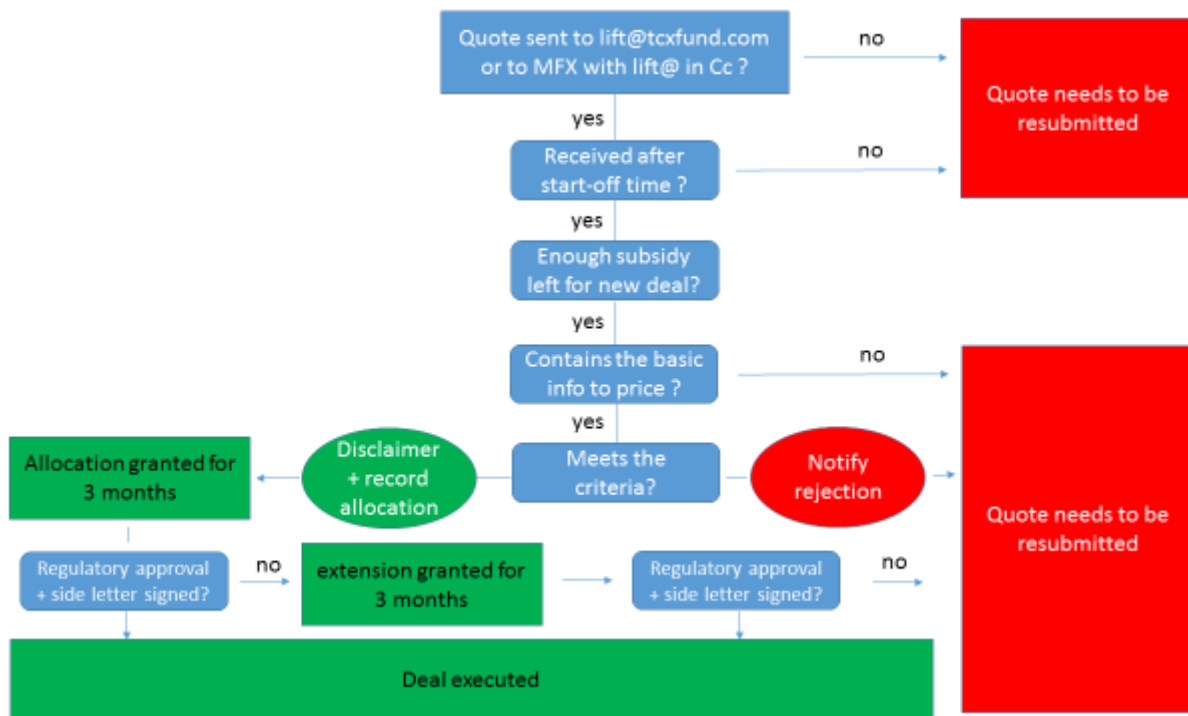
¹ Reporting obligation to LIFT

- The lender is responsible to make sure that the subsidized rate is in line with the law and that the interest rate is an all-in rate (any gross up amount and withholding tax included) and makes a representation thereto in the side letter.
- The lender makes a representation that in case of unwind, the part of the subsidy covering the remaining maturity of the transaction is neutralized from the MtM that TCX will calculate on the unwind date.

Change of the terms of the loan/hedge after an allocation

TCX reserves the right to reject any allocation previously made if the lender changes the terms of the hedge/loan.

Decision Tree



Library of relevant documents.

All the relevant documents are available on www.tcxfund.com/myanmar

Contact

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