

Flexible Financing Facility (FFF) Commodity Conversions

About the FFF

The FFF offers financial solutions to further borrowers' risk management capabilities in projects, lending programs and asset-liability management strategies. Sovereign borrowers can choose from a menu of embedded options to tailor financial terms of Ordinary Capital (OC) loans. The FFF also offers stand alone hedges to transform risk characteristics of all IDB obligations. These financial solutions address borrowers' changing needs during the life of IDB loans.

Transforming standard FFF loans

Latin American and Caribbean (LAC) countries are exposed to commodity price volatility with significant impact to their fiscal accounts. Through built-in options in FFF loans, borrowers have the ability to manage exposures to commodity prices. These options are available at any time during the life of a loan, on a partial amount or on the full outstanding loan balance.

Commodity Conversion Options

Conversions are embedded in FFF loan agreements (i.e., no ISDA required), are structured on a case-by-case basis, are settled in cash only, and are subject to market availability, and operational and risk management considerations. There is no limit to the number of commodity conversions that can be executed during the life of a FFF loan. Currently, IDB can offer oil hedges linked to FFF loans; other commodities will be assessed based on borrower demand.

Commodity conversion options available during the life of the loan include:

- Buying a call option to protect from commodity price increases;
- Buying a put option to protect from commodity price decreases.

Option types may be exercised only at expiration and include:

- European;
- Fixed-strike arithmetic Asian;
- Binary.

Required Outstanding Loan Balance (Required OLB)

Commodity conversions are linked to USD denominated OLBs. The required OLB will be determined by the Bank on a case-by-case basis before execution of the Commodity conversion.

For **call options**, required OLB is determined as follows:

$$\text{Required OLB} = \text{Number of Units} * (Z - \text{Strike Price})$$

Where Z is the highest expected forward oil price at option's maturity linked to the option type as calculated by IDB.

At a Glance

- Commodity conversion options are embedded in USD FFF loan agreements (i.e., no ISDA required).
- Borrower exposure to commodity prices may be managed by buying call or put options from the IDB.
- Options may be exercised only at expiration and include: (i) European; (ii) fixed-strike arithmetic Asian; and (iii) binary options.
- Commodity conversions are structured on a case-by-case basis and settled in cash only.
- Commodity conversions are subject to market availability, and operational and risk management considerations.
- Cost is on a pass-through basis plus applicable fees.
- Option payoff, if any, will be deposited by the Bank in the bank account instructed by the borrower.

For **put options**, required OLB is determined as follows:

$$\text{Required OLB} = \text{Number of Units} * (\text{Strike Price} - Y)$$

Where Y is the lowest expected forward oil price at option's maturity linked to the option type as calculated by IDB.

To meet the required OLB, commodity conversions can be embedded in one or multiple FFF loans.

Pricing and Transaction Fees for Currency Options

Commodity conversions are subject to market availability and pricing (i.e., option premium) is on a cost pass-through basis plus applicable fees.

Option premium per unit of underlying commodity reflects market conditions at the time of execution considering the following specifics selected by a borrower:

- Option type;
- Strike price;
- Conversion period;
- Fixed payoff amount linked to binary options.

For applicable Transactions Fees, please refer to www.iadb.org/rates.

Commodity conversion payoff (cash settlement amount)

If at the end of the conversion period, or at the time of an early termination, a commodity conversion results in a payoff to the Borrower, such amount will be deposited by the Bank in the bank account as instructed by the Borrower.

Please consult with us for these or other Commodity Options

Flexible Financing Facility (FFF) | Terms and Conditions *

Currency of loan approval	- US dollars or regional local currencies (LCs) that the IDB can efficiently intermediate.
Maturity, amortization, and WAL	<ul style="list-style-type: none"> - Investment loans: typically, 25 years final maturity, 5.5 years grace period and semiannual straight line amortization, thereafter, corresponding to a Weighted Average Life (WAL) of 15.25 years. - Policy Based Loans (PBLs): 20 years final maturity, 5.5 years grace period and semiannual straight line amortization, thereafter, corresponding to a WAL of 12.75 years.
Lending rate	<ul style="list-style-type: none"> - For US denominated financing, lending rate is SOFR base rate plus IDB lending spread: (i) SOFR base rate is USD SOFR daily overnight compounded rate in arrears +/- IDB's funding margin; plus (ii) IDB's Ordinary Capital (OC) lending spread, periodically determined by the Bank. - For Major Currencies (MC)/LC financing, lending rate is (i) the MC/LC equivalent of SOFR +/- estimated funding margin in USD or actual funding cost at the time of execution, plus (ii) IDB lending spread. - For applicable loan charges and conversion option fees, please refer to www.iadb.org/rates.
Loan tranching	<ul style="list-style-type: none"> - Refers to sub loans within a single loan, each with different financial structures, such as currency, repayment schedule, and interest rate basis. - For financing in MCs, up to four tranches each of at least \$3 million. For financing in LCs, flexible number of tranches to accommodate for market constraints. - Each tranche can be denominated in a different currency.
Currency conversion options	<ul style="list-style-type: none"> - Conversion options available during the life of the loan for disbursements or outstanding loan balances include: (i) conversion to other MCs; (ii) conversion to regional LCs subject to market availability; and (iii) fixing the exchange rate at a predetermined level on a future date (forward starting swap). - Loan obligation remains in the converted currency. - For non-US dollar conversions, arrears accrue interest at a floating rate of the overdue currency plus 1%. Additional charges assessed, if necessary, consistent with a full cost pass through. This applies for currency in which the IDB does not have treasury operations. - Please consult with us for these and other currency options.
Flexible repayment options	- Standard FFF loans carry a semiannual straight line amortization schedule. Other repayment options include bullet repayment structures, extended grace periods, uneven amortization schedules, and shorter repayment periods subject to: (i) the cumulative WAL of all tranches cannot exceed the loan's original WAL, and (ii) the loan's original final maturity date, which cannot be exceeded.
Interest rate conversion options	<ul style="list-style-type: none"> - Options available during the life of the loan for partial or full loan conversions include: (i) fixing both or either one of the SOFR base rate components (SOFR daily overnight compounded rate in arrears and/or funding margin); (ii) floating the fixed rate; (iii) converting to an inflation-linked rate; (iv) contracting an option to fix the SOFR base rate at a predetermined level on a future date (forward starting swap); (v) purchasing an interest rate cap and/or collar. - Minimum amounts apply based on operational and market considerations.
Commodity conversions	<ul style="list-style-type: none"> - Commodity conversion options are embedded in FFF loans and are linked to outstanding loan balances. - Conversion options available during the life of the loan include: (i) buying a call option to protect from commodity price increases; and (ii) buying a put option to protect from commodity price decreases. - Option types include: (i) European; (ii) fixed-strike arithmetic Asian; and (iii) binary options. - Conversions will be structured on a case-by-case basis, are settled in cash only, and are subject to market availability, operational and risk management considerations; minimum conversion amounts apply. - Conversion cost is on a pass-through basis.
Other risk management options	- Please consult with us for availability.
Prepayment	<ul style="list-style-type: none"> - Full or partial loan prepayments are subject to IDBs ability to unwind its funding operations with the market. - Converted loan amounts under any of the options offered by the FFF are subject to pass through of IDB's cost/gain from redeployment of funds.
Conversion fees	<ul style="list-style-type: none"> - Fees for currency, interest rate, and/or commodity conversions apply. - For a complete list of transaction fees, please refer to www.iadb.org/rates.