

## Frequently Asked Questions – Modernisation of the Arrangement

### When will the new rules resulting from the modernisation of the Arrangement come into force?

The new rules agreed by Participants to the Arrangement are expected to come into force on 15 July 2023, once all the Participants have finalized their formal internal decision-making processes.

### How has the Arrangement changed as a result of its modernisation?

In the main, the Arrangement will allow longer repayment terms that are consistent with the useful life of the exported goods and services (or where appropriate, the project) and more flexibility in the financial structuring (*i.e.*, the frequency, size and pattern of repayment of principal and payment of interest) of export credits. Even longer repayment terms and financial structuring flexibility will be available for a broader range of climate-friendly transactions. In addition, the minimum credit risk premium rates have been lowered by applying a “term adjustment factor” for higher-risk transactions with longer repayment terms. The rules for aircraft in Annex III of the Arrangement and for ships in Annex IV (previously Annex I) remain unchanged, although the Ship Sector Understanding was reformulated to be a self-contained sector understanding (with no cross-references to the main Arrangement text).

### Are some of the rules still different for Category I and Category II countries?

All countries will be subject to the same rules on maximum repayment term (*i.e.* the distinction between Category I and Category II countries has been removed), however, the rules on the maximum support allowed for local costs remain unchanged; this means that local costs of up to 40% of the export contract value can be supported for transactions in Category I countries and up to 50% for transactions in Category II countries.

### Have the rules on support for project finance transactions changed?

Yes and no. In the first instance, in view of the changes in general rules in Chapter II of the Arrangement on maximum repayment term and financial structuring, the special rules applicable to limited recourse project finance transactions (Annex VI of the current Arrangement) will be removed. This means that there will no longer be any specific disciplines for such transactions. In concrete terms, the implication of this change is that project finance transactions will be subject to: (1) the standard 15-year cap on repayment term (an increase of one year in comparison with the rules prior to 15 July 2023) and (2) the new standard rules on financial structuring. Regarding the latter, although the new, standard set of parameters governing the financial structuring of transactions will be applicable, for all intents and purposes, this change should go unnoticed. Finally, these transactions will no longer be subject to any of the constraints of the Project Finance Understanding (*e.g.* shorter repayment terms for some transaction in High Income OECD countries and the lengthy and detailed eligibility criteria).

### Have the rules on support for rail projects changed?

Like the Project Finance Annex, the sector understanding with specific terms and conditions for rail transactions will be removed. This means that the general rules in Chapter II of the Arrangement on maximum repayment term (15 instead of 14 years) and financial structuring will apply. However certain rail transactions may qualify for even longer repayment terms and more flexibility in financial structuring under the expanded Climate Change Sector Understanding. Specifically, transactions involving (1) zero emissions track-bound transportation and associated infrastructure (project class H – type 1) or (2) low emissions rail and enabling infrastructure (project class H – type 2) that meet the relevant standards and criteria defined in Appendix I of the Climate Change Sector Understanding (CCSU) will be eligible for repayment terms of up to 22 and 20 years respectively.

### Have the rules on support for power plants changed?

In the first instance, the ban on support for coal-fired power plants remains in place. Other fossil fuel power plants remain subject to a maximum repayment term of 12 years (*i.e.* they do not benefit from the increase in the maximum repayment term to 15 years), including any that could have been financed under the Project Finance Sector Understanding. As for renewable energy power plants and nuclear power plants, the maximum repayment term has been increased from 18 to 22 years.

### Why do low-emissions water transport projects and projects relating to the production of clean liquid and gaseous fuels appear in Annex I of the Climate Change Sector Understanding while remaining subject to the standard terms and conditions of the Arrangement?

The inclusion of these sectors in Annex I is meant to show that they remain candidates for the special terms and conditions of the CCSU, but that further work is needed to define appropriate parameters and criteria (or to determine that they should not be included). Accordingly, the maximum repayment terms and financial flexibility available for transactions in these sectors will be those stipulated in Chapter II.

### How will the lower minimum premium rates be applied?

The lower minimum premium rates resulting for the application of the term adjustment factor will apply to all transactions with a horizon of risk (HOR, as defined in the Arrangement) of greater than 10 years in countries classified in risk categories 1 to 7 when the Participant assessing the obligor's credit risk assigns a buyer risk category equivalent to BB+ or worse. The minimum premium rates for transactions in Market Benchmark Countries remain unchanged.

### What are the new parameters for financial structuring flexibility?

Financial structure flexibility is available regardless of sector, under two scenarios: (1) if there is an imbalance between the timing of funds available to the obligor and what is required under a standard repayment profile (*i.e.* principal repaid in equal and regular instalments or equal repayments of principal and interest combined) or (2) when the amortization schedule does not match the obligor or project's free cash flow. For these scenarios, export credits may be provided on other than standard terms within the following constraints:

- 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.
- The first repayment of principal shall be made no later than 24 months after the starting point of credit.
- The maximum weighted average life of the repayment period is the greater of 65% of the repayment term of the transaction or 6 years.

For transactions that fall under the scope of the Climate Sector Understanding (except for remediation projects in fossil fuel plants and fossil fuel substitution projects in project class B, and energy efficiency projects in project class C) or the Nuclear Sector Understanding, the constraints are slightly different:

- 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.
- The first repayment of principal shall be made no later than 36 months after the starting point of credit.
- The maximum weighted average life of the repayment period is the greater of 70% of the repayment term of the transaction or six years.