



frontclear

A financial markets development company

THE CHALLENGE – INTERBANK MARKETS



- Interbank markets operate on the assumption of fully mitigated credit risk through HQLA collateral (G7 cash/government securities)
- EMDC financial institutions can offer local currency collateral at best, exposing their transacting counterparties to country and market risk (if correlated: wrong-way risk)
- Lack of access to interbank markets fails to unlock comparative advantages and leads to higher borrowing costs and/or lack of liquidity in the local market

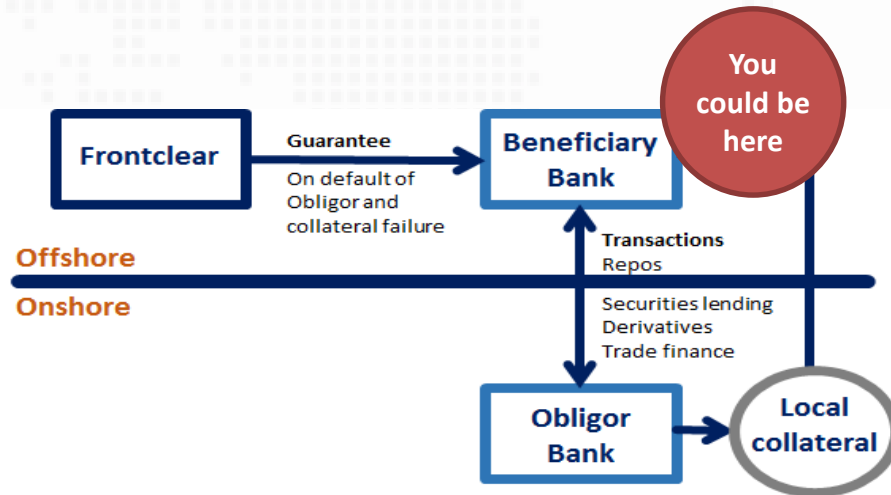
“Financial markets in EMDEs ... [are] constrained by perceptions of high counterparty risk and often a limited supply of high quality collateral, contributing to high spreads ... -- Financial Stability Board, IMF and World Bank (2012)

“An important policy measure that has been proposed to stabilize interbank markets — especially in emerging economies — is to collateralize transactions in the interbank market.” -- World Bank 2013 Financial Development Report

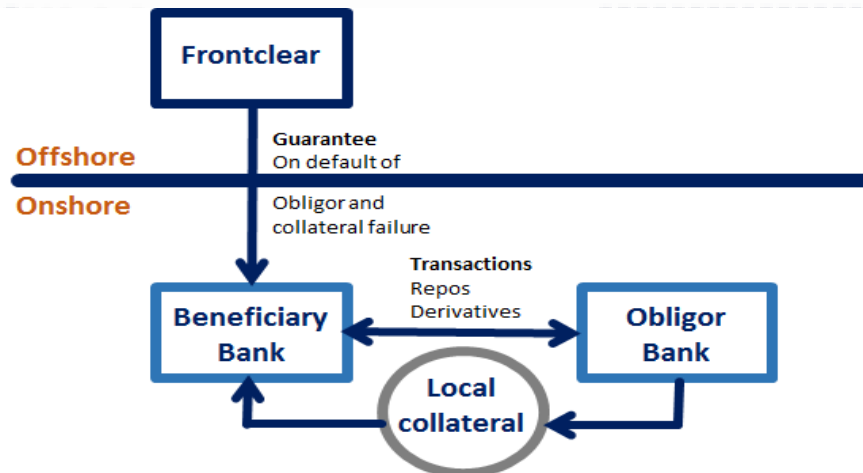
“To improve the efficiency of the interbank and its role as a channel of transmitting monetary policy in such underdeveloped interbank markets like Kenya, monetary authorities must broaden the product tenors, increase the number of currencies traded, link the interbank with other money market segments and address counterparty risks.” -- African Development Bank (2014)



FRONTCLEAR GUARANTEES



Introducing additional funding and liquidity from foreign investors



Redistributing existing (local) liquidity and promoting policy signals

TECHNICAL ASSISTANCE (FTAP)



Financial

Trainings, workshops, consulting in:

- Fixed income: bonds, REPO, valuation, trading
- Derivatives: overview, valuation, accounting and trading
- (Market) risk management
- Basel II/III: liquidity and balance sheet management



Legal system

Trainings, workshops, consulting in:

- Understanding and applying GMRA
- Understanding and applying ISDA
- Developing bespoke legal opinions in conjunction with legal workshop



Financial markets infrastructure

Custom trajectories such as:

- Settlement rules and reporting
- Central counterparty development (local clearing)
- Guarantee funds in support of local market infrastructure



Regulatory system

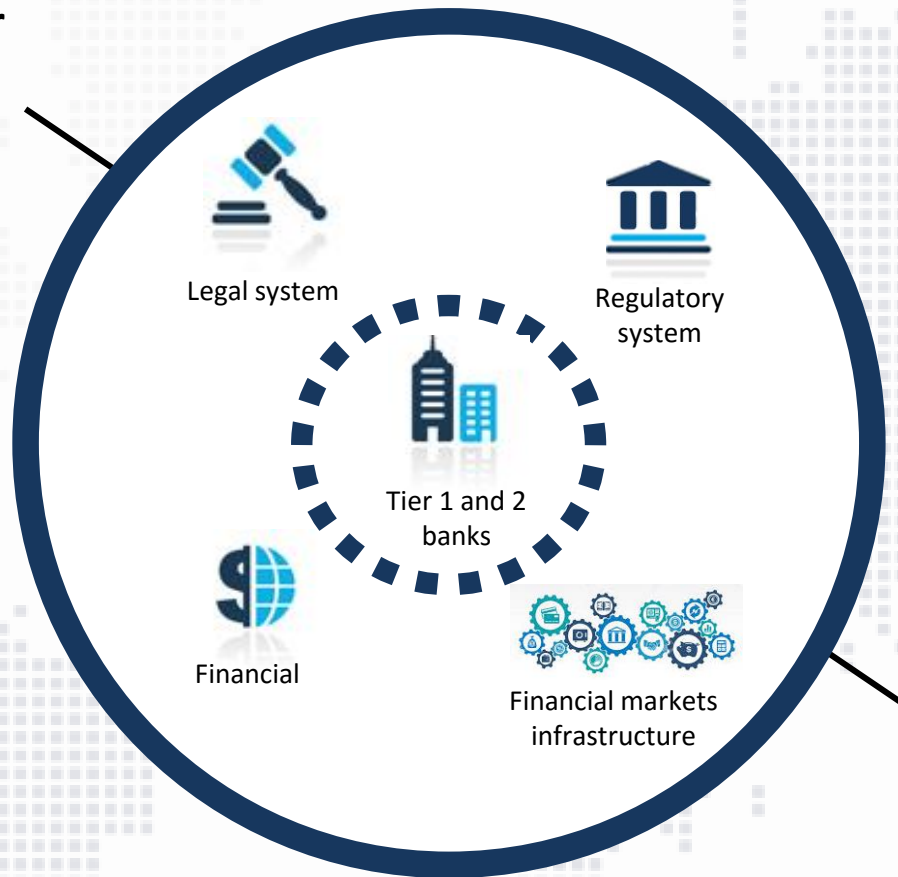
Custom trajectories especially directed to regulatory authorities based on any of the above trainings, workshop, consulting or research e.g. current research on 'Hybrid OTC exchanges: costs and benefits'

TX & TA – REINFORCING INTERVENTIONS



Frontclear Management B.V.

Transactions trigger
change and
facilitate broader
TA interventions



TA interventions
cement changes
and facilitate
transactions

FTAP CASES



Global research

- Hybrid OTC Exchanges: costs and benefits to the interbank market (Q4 2016)
- Money markets and interbank markets: best practice and learning (Q4 2016)

CIS

- Georgia: GMRA enforceability through a bespoke legal opinion. Understanding GMRA and legal constraints for system actors and obligors

West Africa

- Cote d'Ivoire: Understanding and applying ISDA workshop for obligors
- Ghana: annual programme approved and starting Q3 2016
- Nigeria Country Programme (Q3 2016)
- West Africa Regional Programme (Q4 2016)

East Africa

- Kenya: training and regulatory enhancement
- Zambia: legal opinion developed on GMRA and ISDA enforceability. GMRA/ISDA training for banks and system actors in planning (Q4 2016)
- Uganda Country Programme (Q3 2016)
- Rwanda Country Programme (Q3 2016)

FRONTCLEAR IN SHORT



- **Frontclear issues guarantees to cover counterparty credit risk on EM financial institutions in *secured* interbank market transactions**
 - Subject to obligor posting local collateral (cash or government securities)
 - Global diversification of wrong way risk by Frontclear ensures capital efficiency / pricing power
 - 1st demand counter-guarantee from KfW

- **Basel III compliant guarantee for Beneficiaries, eligible under substitution approach for capital relief and positive effect on CVA cost – lowering the cost of trading**

- **Market access on more amenable terms for Obligors, expanding growth and lending potential**

- **Frontclear Technical Assistance Program (FTAP) focused on:**
 - Capacity Building of local market participants
 - Legal reform and market infrastructure development

INVESTORS AND COUNTER-GUARANTORS



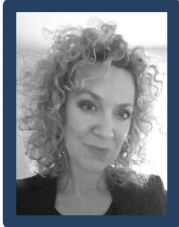


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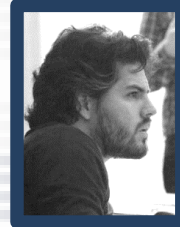
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