



STATUS OF UKRAINE'S EUROBOND HELD BY THE RUSSIAN FEDERATION

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Approved By
Poul Thomsen
Sean Hagan, and
Hugh Bredenkamp

Prepared by European, Legal, and Strategy, Policy, and Review Departments

INTRODUCTION

1. On December 24, 2013, a US\$3 billion Eurobond (the "Eurobond") due December 20, 2015 issued by Ukraine was placed with Russia's National Wealth Fund ("NWF"). At the request of the Executive Director for the Russian Federation, this paper provides staff's assessment as to whether the Eurobond constitutes an official claim for the purposes of the Fund's policy on arrears to official bilateral creditors and seeks the Board's endorsement of the staff recommendation. A proposed decision is attached.

APPLICABLE RULES

2. The Fund has relied on the Paris Club practices for the purposes of the policy on arrears to official bilateral creditors. In this regard, a review of the types of claims that are restructured within the Paris Club is instructive, as it is the forum where most official bilateral claims have been restructured. Restructured claims have generally included credits provided by either a creditor government or, alternatively, by an agency of the government that is acting on behalf of the government. They have also included credits guaranteed by the government in the creditor country or by an agency, such as export credit agency, acting on behalf of the government, once the guarantee is called.¹

¹ In such cases, the guarantee of the government, or its export credit agency acting on behalf of the government, makes possible the provision of financing to the debtor country which would not be available on similar terms and amounts without such an official guarantee.

3. The Fund's own approach in assessing whether a claim is official has been consistent with Paris Club practices. In making such an assessment, the Fund has focused on whether the claim: (i) is held by the government, or an agency acting on behalf of the government; and (ii) originates from an underlying transaction where the creditor government, or an agency acting on behalf of the government, provided or guaranteed financing to the borrowing country.² In making the distinction between official and private claims, the Fund has not found it relevant to rely on differences in the form in which the debt may have been issued.

STAFF ASSESSMENT

4. In the case of the Eurobond, the Russian authorities have represented that this claim is official. The information available regarding the history of the claim supports this representation. The bond was acquired by Russia's NWF pursuant to a decision by the Russian Government to provide assistance to Ukraine.³ In public statements at the time the bond was issued, Russia's Finance Minister, Mr. Siluanov, explained that assistance was being provided via the NWF because the funds had not been appropriated in the federal budget, ruling out a direct intergovernmental credit. Since the NWF's investment guidelines did not permit investment in Ukrainian bonds (due to the credit rating requirements), a specific government decision was needed to amend them.⁴ This implies that the NWF, in acquiring the Eurobond, was acting on behalf of the government. Subsequently the Russian authorities confirmed to Euroclear, at the request of the Ukrainian authorities, that the Eurobond has at all times been 100 percent owned by the Russian Government.

5. Based on the foregoing considerations, staff is of the view that the Eurobond is an official claim for the purposes of the Fund's policy on arrears to official bilateral creditors. In particular, the Eurobond (i) is held by the NWF, an agency acting on behalf of the Russian Government; and (ii) originates from a transaction where the NWF acted on behalf of the Russian Government to provide financing to Ukraine.

² *Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors*, SM/15/261, 10/15/15 (Box 2).

³ As stated by the Russian Government at the time, "Russia is buying Ukraine's bonds considering the difficulties of the Ukrainian economy connected to a greater extent with the world financial and economy crisis, with the aim of supporting the Ukrainian budget." (<http://www.kyivpost.com/content/ukraine/russia-gives-ukraine-cheap-gas-15-billion-in-loans-333852.html>)

⁴ On December 19, 2013—two days after the announcement of the agreement and five days before the Ukraine Eurobond was issued—the Russian Government amended NWF's investment regulations to allow investment in debt of foreign states upon the basis of individual decisions of the Government. Russian Federation Government Resolution No. 1194 of 12/19/2013, available at: http://government.ru/dep_news/9200/ (allowing investment of up to 10 percent of NWF into risky debt obligations of foreign governments by ad hoc Government decisions).



INTERNATIONAL MONETARY FUND



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IMF Executive Board Takes Decision on the Status of Ukraine's Eurobond Held by the Russian Federation

On December 16, 2015, the Executive Board of the International Monetary Fund (IMF) decided that the claim arising from the US\$3 billion Eurobond issued by Ukraine on December 24, 2013 and held by Russia's National Wealth Fund (NWF) is an official claim for the purposes of the Fund's policy on arrears to official bilateral creditors. At the request of the Executive Director for the Russian Federation, the Board considered the staff paper and endorsed the staff assessment without a meeting.¹ Ukraine is not currently in arrears to its official creditors.

Executive Board Assessment

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Based on the foregoing considerations, staff is of the view that the Eurobond is an official claim for the purposes of the Fund's policy on arrears to official bilateral creditors. In particular, the Eurobond (i) is held by the NWF, an agency acting on behalf of the Russian Government; and (ii) originates from a transaction where the NWF acted on behalf of the Russian Government to provide financing to Ukraine.

¹ The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions