

EMEA DC MEETING STATEMENT 20 MARCH 2020

1. SUMMARY

- 1.1 The DC met on 20 March 2020 to discuss whether a Failure to Pay Credit Event has occurred with respect to the Lebanese Republic (the **Reference Entity**) as a result of its failure to pay principal amounts in relation to its 6.375% US\$1,200,000,000 bond due 9 March 2020 (ISIN XS0493540297) (the **Defaulted Bond**).
- 1.2 The DC resolved:
- (a) that a Failure to Pay Credit Event has occurred with respect to the Reference Entity for 2014 Transactions and Updated 2003 Transactions which have as a Reference Obligation a bond that ranks *pari passu* with the Defaulted Bond (noting that this includes the Reference Entity's obligations with ISINs XS0629509943 and XS1313675974, each of which ranks *pari passu* with the Defaulted Bond);
 - (b) that the Failure to Pay Credit Event with respect to the Reference Entity and such transactions occurred on 16 March 2020;
 - (c) that the Credit Event Resolution Request Date is 19 March 2020; and
 - (d) to hold an Auction to settle 2014 Transactions with respect to which this Credit Event Resolution applies.
- 1.3 Note that this Credit Event Resolution is limited to Credit Derivative Transactions which have as a Reference Obligation a bond that ranks *pari passu* with the Defaulted Bond. This is a result of the application of the Obligation Characteristics applicable to the relevant Transaction Type, as explained below. The DC did not make a determination regarding trades with no Reference Obligation or trades which have a Reference Obligation that does not rank *pari passu* with the Defaulted Bond.
- 1.4 The Coverage Election in respect of the DC Question is for both 2014 Transactions and Updated 2003 Transactions. Capitalised terms used but not defined in this Meeting Statement have the meanings given to them in the Credit Derivatives Determinations Committees Rules (September 28, 2018 version, as amended on January 27, 2020) (including in the 2014 Definitions and the Updated 2003 Definitions, as applicable, as defined therein) (the **DC Rules**).

2. PUBLICLY AVAILABLE INFORMATION

- 2.1 The DC considered that there was sufficient Publicly Available Information in order to determine the occurrence of a Credit Event, either on the basis of (a) the Reference Entity's pre-emptive statement regarding non-payment of the Defaulted Bond¹ in accordance with Section 1.35(a)(ii) of the 2014 Definitions and Section 3.5(a)(ii)(A) of the Updated 2003 Definitions, or (b) the additional Publicly Available Information submitted constituting the Specified Number (two) of Public Sources in accordance with Section 1.35(a)(i) of the 2014 Definitions and Section 3.5(a)(i) of the Updated 2003 Definitions (and in that regard, the DC understood the An-Nahar website to satisfy the definition of Public Source).
- 2.2 The Defaulted Bond was due for redemption on 9 March 2020 (the Business Days applicable to the Defaulted Bond are London and New York, and 9 March 2020 was a good Business Day in both

¹ Available at <https://www.bourse.lu/security/XS0493540297/160432>

centres). The conditions of the Defaulted Bond apply a seven calendar day grace period. The grace period therefore expired on 16 March 2020.

3. APPLICATION OF OBLIGATION CHARACTERISTICS AND EFFECT ON CREDIT EVENT RESOLUTION

3.1 The Transaction Type applicable to the Reference Entity is Emerging European and Middle Eastern Sovereign. In order to trigger a Credit Event in relation to the Defaulted Bond (except for Credit Derivative Transactions where the Defaulted Bond is the Reference Obligation), it is necessary for the Defaulted Bond to satisfy the following Obligation Characteristics:

- (a) Not Subordinated;
- (b) Not Domestic Currency;
- (c) Not Domestic Law; and
- (d) Not Domestic Issuance.

3.2 The Defaulted Bond clearly satisfies the Not Domestic Currency and Not Domestic Law Obligation Characteristics, as it is denominated in US Dollars and governed by New York law. The DC determined that the Not Domestic Issuance Obligation Characteristic is satisfied on the basis of a sale note in respect of the Defaulted Bond available on the Reference Entity's website, which made clear that a significant portion of the issuance was subscribed for by international investors.²

3.3 The Not Subordinated Obligation Characteristic requires that the Defaulted Bond is not Subordinated to the Reference Obligation or the Prior Reference Obligation (if applicable) in respect of a given Credit Derivative Transaction. In the context of a Sovereign Reference Entity such as this, the definition of "Subordination" in the 2014 Definitions and the Updated 2003 Definitions takes into account priorities arising by operation of law. Therefore, if the Defaulted Bond is Subordinated to the Reference Obligation in respect of a given Credit Derivative Transaction as a matter of Lebanese law, the Defaulted Bond will not satisfy the Not Subordinated Obligation Characteristic in respect of that Credit Derivative Transaction, and the non-payment will not constitute a Credit Event for such transaction.

3.4 Condition 3 of the terms and conditions in the base prospectus for the Defaulted Bond provides as follows:

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Republic which rank pari passu in priority of payment, without any preference among themselves and at least pari passu with all other present and future unsecured (subject to Condition 4) and unsubordinated Indebtedness (as defined below) of the Republic, other than any Indebtedness preferred by Lebanese law. The full faith and credit of the Republic will be pledged for the due and punctual payment of the Notes and for all obligations of the Republic in respect thereof. [emphasis added]

"Indebtedness" means all indebtedness of the Republic in respect of monies borrowed by the Republic and guarantees given by the Republic of monies borrowed by others.

3.5 Accordingly, the Defaulted Bond is indeed potentially Subordinated to obligations of the Reference Entity as provided for in local law, and the documents available did not contain a description of how this might apply. This means that, in order to determine whether the Defaulted Bond satisfies the

² Available at [http://www.finance.gov.lb/en-us/Finance/PublicDebt/DebtT/Documents/Brief Note \\$1 2BN 2020 Eurobond 2010 Website.pdf](http://www.finance.gov.lb/en-us/Finance/PublicDebt/DebtT/Documents/Brief Note $1 2BN 2020 Eurobond 2010 Website.pdf)

Not Subordinated Obligation Characteristic for a given Credit Derivative Transaction, and hence whether the non-payment triggers a Credit Event in respect of it, it is necessary to consider the seniority level of the Reference Obligation applicable to that Credit Derivative Transaction.

- 3.6 The DC therefore reviewed the governing documentation for obligations of the Reference Entity that it understood to most commonly constitute the Reference Obligation, specifically the Reference Entity's 6.00 per cent. Notes due 2019 (ISIN XS0629509943) and its 6.65% Notes due 2028 (ISIN XS1313675974). Each such bond's documentation contained wording identical (or similar) to Condition 3 of the Defaulted Bond, i.e. each of these obligations ranks at least *pari passu* with all other present and future and unsubordinated indebtedness of the Reference Entity other than as preferred by Lebanese law. This means that these obligations share a seniority level with the Defaulted Bond, and so the Defaulted Bond is not Subordinated to them. Therefore, the Not Subordinated Obligation Characteristic is satisfied for any Credit Derivative Transaction where one of these bonds (or any other bond which ranks *pari passu* with the Defaulted Bond) is the Reference Obligation.
- 3.7 For trades that do not have a Reference Obligation, it may be necessary to determine that there are no other Borrowed Money obligations of the Reference Entity preferred to the Defaulted Bond as a matter of Lebanese law. The DC has not undertaken this investigation.

4. PAYMENT REQUIREMENT

- 4.1 The DC was comfortable that the USD 1,000,000 Payment Requirement was satisfied, on the basis that the principal amount of the Defaulted Bond was U.S.\$1,200,000,000 and the Reference Entity had reported the full amount outstanding as recently as 31 October 2019.³

5. AUCTION RESOLUTION

- 5.1 The Coverage Election in respect of the DC Question is for both 2014 Transactions and Updated 2003 Transactions. However, the Auction Resolution applies only in respect of 2014 Transactions to which the Credit Event Resolution applies. If the population of Deliverable Obligations for Updated 2003 Transactions is identical to the population for 2014 Transactions, any Updated 2003 Transactions will be included in the same Auction.

³ Available at <http://www.finance.gov.lb/en-us/Finance/PublicDebt/DebtT/Documents/EUROMAIN%2031%20October%202019.pdf>