

Frontclear and Banesco Banco Múltiple, S. A. close a market first GMRA documented cross-border DOP repo against DOP-denominated collateral

July 2024. Frontclear and Banesco concluded a USD 10 million synthetic DOP repo, using locally issued, DOP-denominated Dominican Republic Ministry of Finance and Central Bank bond collateral. This trade is the first ever DOP funded cross-border repo trade in the Dominican Republic with a bank as the borrower and against local currency collateral. With the help of The Currency Exchange Fund (TCX), Frontclear managed to swap Dollars for Dominican Peso funding and therefore offer Banesco liquidity with no embedded FX risk.

The repo transaction is documented under standard GMRA 2011 and funded by FCC Securities (a 100% owned subsidiary of Frontclear), which established local custody infrastructure to secure title transfer of the collateral and DOP cash. The successful conclusion of this landmark trade demonstrates first-hand the benefits of using international market standard documentation including clarity on key aspects such as title transfer of collateral and enforceability of GMRA provisions in a close-out scenario.

Money markets are the most fundamental layer of financial markets, supporting maturity transformation and responsible lending practices of banks, deepening of government security markets, and allowing for effective transmission of monetary policy signals.

"This repo trade serves as a pivotal moment for the Dominican Republic money market. We are proud to have offered Banesco synthetic local currency funding against a basket of locally issued, local currency bonds as collateral. This structure works because Frontclear has built the necessary local custody and cash account infrastructure needed to secure local currency repos and we firmly believe it will be the first of many structures of this type." – Daniel Baeza, SVP Frontclear

"We are delighted to have partnered with Frontclear on this groundbreaking repo transaction. This innovative structure provides us with valuable liquidity without exposing us to FX risk. By leveraging locally issued bonds as collateral, we enhance our funding strategies and capitalize on favorable rates, enabling us to expand our asset base. From a sector perspective, this transaction represents a significant advancement in bolstering the resilience and growth of the local financial ecosystem." – Javier Vargas, Treasurer, Banesco Banco Múltiple, S. A.

"This repo transaction in DOP is an important capital market development for the Dominican Republic. It allows local banks such as Banesco to do repos with offshore institutions, opening up new pools of liquidity that they can tap. As a development finance initiative, TCX was able to provide the USD for DOP currency swap in a market with no alternative swap provider. We look forward to collaborating with Frontclear on more transactions and supporting the development of repo offshore operations." – Julian Carvajal, VP of Trading (Latin America), TCX

About Banesco

Banesco Banco Múltiple S. A., established in 2011 in the Dominican Republic, is a financial institution that offers a range of banking services, with a focus to provide innovative financial solutions, customer experience and technological advancement. The bank emphasizes social responsibility and community involvement, aligning with Banesco Internacional, a financial services brand with an international presence and more than 35 years of experience in banking, insurance and payment methods. With operations in the United States, Europe and Latin America. For more information, visit <https://www.banesco.com.do/>.

About Frontclear

Frontclear is a development finance institution that aims to support stable and inclusive money markets in emerging and developing countries. Frontclear provides credit guarantees and technical assistance to facilitate access and liquidity in the interbank markets, especially for local financial institutions. Frontclear's global technical assistance program works in partnership with central banks to develop the financial infrastructure, legal environment and the skills and capacity of the domestic market participants. Frontclear is funded by European development finance institutions and global development agencies. Frontclear is rated A- by Fitch and Baa1 by Moody's and is furthermore counter-guaranteed by KfW, a AAA- rated German development Bank. For more information, visit www.frontclear.com.

About TCX

TCX is a global development finance initiative supported by a shareholder base that includes FMO, IFC, EBRD, EIB, KfW as well as the European Commission and Dutch, Swiss, British, French and German governments, other development finance institutions and microfinance vehicles. TCX protects borrowers in emerging and frontier markets from currency risk by facilitating currency hedges that transfer the risk to TCX's balance sheet. TCX offers derivative instruments—cross-currency swaps and FX forwards— in currencies not or insufficiently offered by commercial parties. TCX was founded in 2007 and has since then hedged a total volume of over USD 14 billion in development loans in 66 currencies and nearly USD 2.5 billion in frontier market bonds.

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