

Frontclear arranges an ISDA-documented landmark local currency cross-border repo transaction with State Bank Mongolia

February 2025. Frontclear arranged, structured and executed a USD 31 million synthetic local currency cross-border repurchase transaction with State Bank JSC (State Bank) in Mongolia, hedged by The Currency Exchange Fund N.V. (TCX).

Credit risk, legal and operational risks plus wrong-way risk concerns continue to make it difficult for Mongolian banks to be connected to global money markets. The transaction made it possible for State Bank to competitively access local currency funding from global markets. It also once again underscored that Frontclear deal arranging and structuring can be tailored to overcome certain legal and operational issues related to Mongolia.

"Frontclear has closed more than 10 repo and swap transactions in Mongolia since 2018. We are proud of our catalytic role we have played in originating the first of its kind local currency repo where Frontclear directly provided synthetic MNT currency to State Bank against Eurobond collateral using offshore sources for both funding and hedging. The transaction provides a template to exercise cross-border repos between Mongolian banks and global banks and hedge providers using both local and offshore collateral. It sets a benchmark for the development of Mongolia's money market going forward."
– Andrei Shinkevich, SVP Frontclear

"We are delighted to successfully execute this inaugural synthetic local currency cross-border repo transaction with Frontclear. Since our initial collaboration in 2018, our partnership has continued to strengthen, playing a key role in the growth of Mongolia's financial market through the adoption of international best practices. This innovative transaction has enabled State Bank to access competitive local currency funding from global markets, greatly enhancing our liquidity management capabilities. We believe this mechanism creates opportunities to reach the international money market, contributing significantly to the development of the domestic capital market. – Gantur Ulzii, Chief Executive Officer, "State Bank" JSC of Mongolia

"This transaction showcases TCX's contribution to market development in Mongolia and its additionality. The historically successful onshore hedging facility provided by Bank of Mongolia is downscaling, which allows other hedge providers to take up a more significant role in supporting the market. Consequently, TCX's ability to facilitate hedging transactions for a range of use cases, tenors and currencies, combined with conducive pricing has resulted in a large pick up in the MNT business through its partners such as Frontclear and other impact investors. We are glad to see the increasing awareness of currency risk and to be part of this impact story." – Xander Goudriaan, Head of Trading, TCX

In this transaction, Frontclear has sourced USD liquidity from the European Bank of Reconstruction and Development (EBRD) and simultaneously executed a MNT/USD hedge with TCX, therefore being able to provide synthetic MNT repo funding to State Bank. This repurchase transaction is documented under an International Swap and Derivatives Association (ISDA) agreement, whereby Frontclear customized the swap confirmation to account for legal issues in the Mongolian market. The transaction documentation introduced best practice operational and legal concepts including for local currency denominated repo. TCX and Frontclear are part of Cardano Development.

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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

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About TCX

The Currency Exchange Fund (TCX) is a development finance initiative that offers currency derivatives in emerging and frontier markets where such hedging solutions are not provided by commercial banks or are hard to access for the parties who need them. TCX's shareholders consist of development finance institutions and impact investors; therefore the Fund's principle objective is to eliminate currency risk and contribute the development of capital markets by fostering local currency financing. TCX provides cross-currency swaps and FX forwards with no tenor limits, covering more than 100 currencies worldwide. The Fund is based in Amsterdam and rates A by S&P and A1 by Moody's. For more information, please visit <https://www.tcxfund.com/>

About State Bank

The State Bank is a publicly listed joint-stock company with state ownership. Since its establishment in 2009, the Bank has been significantly contributing to the national banking system by meeting the financial needs of both retail and corporate customers through reliable and timely services, supported by its skilled workforce and advanced technology. As one of Mongolia's five systematically important banks, the State Bank has the strongest retail banking presence in the country, with over 500 branches nationwide. The bank is rated B2 by Moody's. For more information, visit our website at www.statebank.mn