

## **GOVERNMENT OF BARBADOS**

### **BBD Debt Exchange Offer**

#### **Frequently Asked Questions**

On 7 September 2017, the Government of Barbados (GoB) launched an exchange offer for holders of Barbados dollar-denominated debt as part of its Comprehensive Debt Restructuring. This note provides some answers to frequently asked questions relating to the transaction.

#### **1. What is an exchange offer?**

An exchange offer is a transaction that allows holders of debt instruments to exchange these securities for new ones carrying different repayment terms. It is through the BBD debt exchange offer launched on 7 September 2018 that the GoB will implement the restructuring of Barbados dollar-denominated debt instruments.

#### **2. Why is the BBD exchange offer being launched?**

The GoB's debt burden has become unsustainable over the last 10 years – the result of excessive fiscal spending and borrowing by the Government and other public entities under the last administration. The GoB's Barbados Economic Recovery and Transformation (BERT) plan, which will be supported by an IMF programme, will address the fiscal imbalance and will limit the scope for fiscal indiscipline going forward. However, to work, the BERT plan requires the public debt to be restructured in order to make the public finances viable once again.

#### **3. What does this mean for me?**

To be able to repay its Barbados-dollar denominated debts, the GoB is asking all holders to make sacrifices by agreeing to exchange their existing holdings for new debt instrument to be issued by the GoB. The process of agreeing to exchange your securities is called 'tendering'. The new debt instruments will be subject to longer repayment periods (or 'tenors') than your existing securities, and will carry lower rates of interest. Crucially, the face value of your securities will be preserved, which means that there will be no principal 'haircut'.

#### **4. How will I know if I am affected?**

If you hold any Barbados dollar-denominated debt securities or instruments issued by the GoB, or loans and bonds contracted by

state-owned enterprises and entities that receive transfers from the state budget, with the exception of Savings Bonds, then you will be affected. This includes ALL Treasury Bills, Treasury Notes, and Debentures, irrespective of series or maturity and issuance dates.

## **5. What terms will the new instruments carry?**

The Government is offering various series of new instruments in exchange for existing instruments. Eligibility for each will vary depending on holder and instrument type. A summary of the treatment can be found at <http://gisbarbados.gov.bb/blog/bbd-debt-exchange-offer-summary/>, and full details will be provided to each affected holder in written communications being sent out by the Ministry of Finance, Economic Affairs, and Investment (MoFEI) during the week commencing 14 September 2018.

Individuals (including pensioners), households, charities, churches, cooperatives, credit unions, and trust companies will receive a series of 11 bonds, with individual maturities of 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, and 15 years. All of these bonds will carry interest rates of 1.0% until 30 September 2021, rising to 2.5% for the following year, and then to 3.75% from September 2022 until final maturity. In the case of individuals who have reached the pensionable age of 60 AND receiving pension benefits as of 1 September 2018, repayment of principal (amortisations) will start on 31 December 2019. In the case of all other individuals, households, charities, churches, cooperatives, credit unions, and trust companies, the repayment of principal will start on 31 December 2022. Both bonds will repay principal on a quarterly basis, from the first principal repayment until final maturity.

Crucially, the face value of your securities will be preserved, which means that there will be no principal 'haircut' for individuals, households, charities, churches, cooperatives, credit unions, and trust companies. Larger institutional investors are being asked to accept a new 35-year bond for some of their holdings in Treasury Notes, Debentures, and other claims.

## **6. Does this mean that I will suffer economic losses or a 'haircut'?**

The fact that the face value of your securities is not being reduced means that you are not being asked to accept a principal reduction, or 'haircut'. However, the longer repayment periods and lower interest rates do imply an economic loss for you. This is the unavoidable consequence of the comprehensive restructuring that the GoB needs to put in place for a successful execution of the BERT plan – a precondition for the economic and financial rehabilitation of Barbados.

**7. Why have interest payments been suspended? What does this mean for me?**

When the GoB first announced its intention to seek a comprehensive debt restructuring on 1 June 2018, it simultaneously announced a suspension of payments on its US dollar denominated debt in view of the country's very low level of international reserves. The GoB has been using its best efforts to remain current on its BBD debt over the last three months in order to allow the domestic financial system to adjust as discussions with financial institutions have progressed, but acute budget constraints mean that interest payments on the existing terms can no longer be sustained.

All interest falling due and accruing through to 30 September 2018 will be calculated and capitalised, which means it will be added to the principal (face value) of the new bonds to be issued to those holders who participate in the exchange. Normal interest payments will resume for these new bonds, with the first interest payment scheduled for 30 November 2018 (in the case of the new 35-year bond) and 31 December 2018 (in the case of the new 15-year bond).

**8. I see that this exchange offer covers only debt denominated in Barbados dollars. Does this mean that foreign investors holding Barbados debt denominated in US dollars will not be asked contribute?**

Discussions with holders of US dollar-denominated commercial debt are progressing, and it is expected that they will contribute to the GoB's Comprehensive Debt Restructuring. The restructuring of the US-dollar denominated commercial debt will be implemented through a separate and subsequent transaction.

**9. When will I receive my new instruments?**

The GoB expects to issue the new debt instruments to participating holders on or before 31 October 2018, although interest on those new instruments will accrue retroactively from 30 September 2018. The GoB expects that the new instruments will be issued in 'dematerialised' (ie. non-paper) form.

**10. What happens if I don't respond, or if I reject the invitation to participate in the exchange offer?**

This largely depends on the overall outcome of the transaction. The GoB is preparing to introduce legislation to Parliament that would have the effect of converting all debt instruments classified as Affected Debt into a single asset class for the purposes of voting on the Comprehensive Debt Restructuring. Assuming that Parliament approves this legislation, and so long as holders of more than 50% of the Affected Debt respond to the exchange offer (accepting or rejecting

it), if holders of 75% or more of the Affected Debt by face value accept the offer, then upon the closing all instruments held by creditors who either rejected or did not respond to the offer will be automatically exchanged into the new instruments as per the terms of the exchange offer.

Even if these thresholds are not met, the GoB may decide to press ahead with exchanging into the new bonds those existing debt instruments that have been tendered.

The GoB does not anticipate that it will have the resources necessary to resume servicing the existing debt on its current terms, and it is therefore possible that untendered instruments could remain in default indefinitely. It is therefore of great importance that you respond to the exchange offer by the 5 October 2018 deadline.

## **11. How do I participate in the exchange offer?**

In the coming days you will be receiving a document from the MoFEI entitled 'Offer to Exchange'. The main body of the document will provide important information relating to the exchange offer, including the eligibility for the different new debt instruments on offer depending on holder category. The letter will also contain three annexes. Annex 1 lists all of the debts that are subject to the exchange offer, and may include claims that you do not currently hold. Annex 2 will set out the repayment terms of the new debt instruments being offered as part of the exchange offer.

Annex 3 is the 'Form of Tender', which is the document that you will need to detach, complete, and return to the Central Bank of Barbados (CBB) in order to participate in the exchange offer. The CBB is acting as exchange agent for the GoB's exchange offer. This means that the CBB will have responsibility for receiving tenders holders, counting tenders, reconciling information on holdings, and coordinating the issuance of the new GoB securities.

Part XI of the main document will provide instructions for completing Annex 3. To complete the form you will, amongst other things, be required to list the GoB securities that you currently hold, as well as the principal (face) amount. Annex 3 also gives you the option to accept the offer and approve and Comprehensive Debt Restructuring, or reject the offer and disapprove the Comprehensive Debt Restructuring.

To participate in the exchange offer, your completed Form of Tender (Annex 3) will need to be received by the CBB no later than 5pm on Friday, 5 October 2018.

**12. Can I tender some, but not all, of my holdings?**

No. You can accept the tender for ALL of your holdings but not partially.

**13. What do I do if I have not received the Offer to Exchange from the CBB?**

If you haven't received the Offer to Exchange by Friday, 21 September 2018, please contact Ms Julia Weekes, Banking, Currency & Investments Department, CBB, on (246) 436 6870 or at [debtxchange@centralbank.org.bb](mailto:debtxchange@centralbank.org.bb)

**14. What should I do with the certificates evidencing by holdings of Treasury Notes and Debentures?**

Hold on to them for now. Participating holders will be contacted by the CBB after the expiry of the offer but before the planned October settlement (issuance) of the new bonds with instructions for submitting certificates. If you are unable to find your certificates you will be asked to sign a declaration that will release the GoB of any additional claim of your certificates resurface after the settlement of the new bonds.

**15. I understand that pensioners will receive a new 15-year bond that begins to amortise (repay principal) on 31 December 2019, whereas other individuals will have to wait until 31 December 2022 for their first principal payment. What happens if I become a pensioner during this time?**

Pensioners are defined as persons of a pensionable age (60) that are also receiving pension benefits as of 1 September 2018. If you do not qualify as a pensioner as of this date, you will receive the new 15-year bond that begins to amortise in 2022 in exchange for your existing claims. However, once you qualify as a pensioner you will have the option to exchange this bond for the one to be issued to pensioners. The procedure for this subsequent swap will be announced by the GoB in due course.

**16. Do I need to provide my bank account details if I am already receiving payments?**

Holders of Treasury Notes and Debentures who are already receiving payments directly to their bank account do not need to provide their account details unless they wish to receive payment under the new bonds into an alternative account. Holders of other instruments (including Treasury Bills) need to provide bank account details to receive payments going forward, as the CBB will act as the paying agent for all new instruments following the exchange.

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