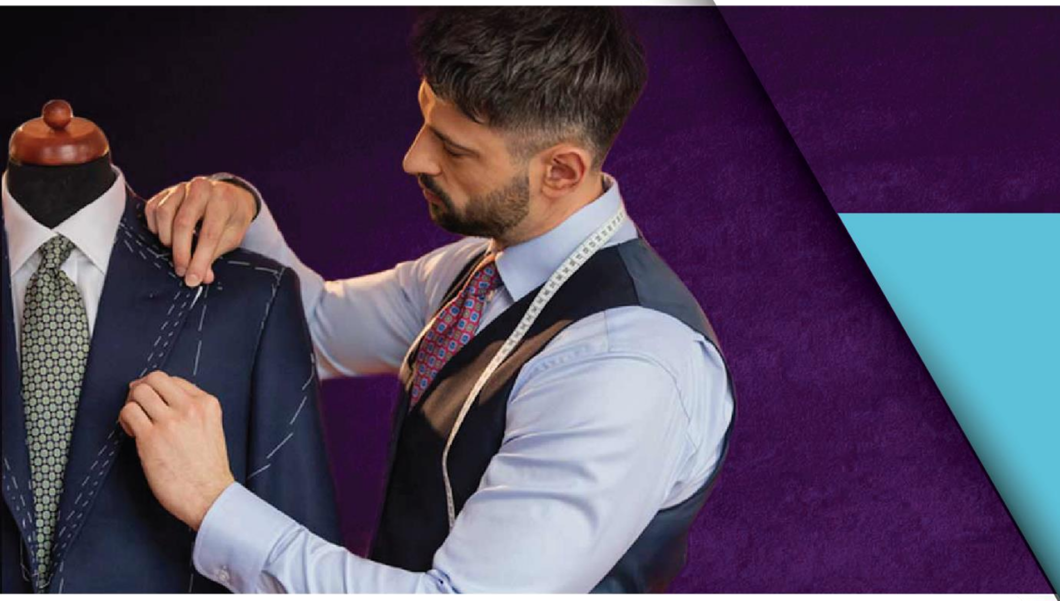

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Sameer Jain
sameer.jain@activeallocator.com
(312) 498-1903

Ecuador Debt Exchange Transaction — 2000

https://www.activeallocator.com/blog/

Funds Clash Over Deal on Ecuador

- Wall Street Journal, July 18, 2020 “ **Funds Clash Over Deal on Ecuador "**
  - *To swap $18 billion bonds into new that pay lower interest with delayed maturity. Restructuring debt proposals create creditor – including Ashmore Group, BlackRock, T. Rowe Price, Contrarian Capital - differences in how different bonds are to be treated. New transactions being asked to linked to ESG goals.*

- Ecuador seeking to restructure debt during coronacrisis, and lower oil prices given new liquidity and debt sustainability challenges

- Oil dependent economy heavily reliant on external credit where external interest payments are 10% of current external receipts

- For history of Ecuador Debt Restructuring we recommend: Feibelman, A. (2017). Ecuador’s 2008–2009 Debt Restructuring. In J. Bohoslavsky & K. Raffer (Eds.), Sovereign Debt Crises: What Have We Learned? (pp. 48-64). Cambridge: Cambridge University Press. doi:10.1017/9781108227001.004

- We examine here the anatomy of Ecuador Debt Exchange Transactions — 2000 , the first instance of default in Brady Bonds

2. Ecuador Debt Exchange—August 2000

Highlights: The Republic of Ecuador

The Exchange Offer described herein will expire at 5 p.m. (New York time)
on August 9, 2000, unless extended or earlier terminated.

OFFERING CIRCULAR
dated July 27, 2000

Republic of Ecuador

Offer to Exchange

US Dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds")
12% US Dollar Denominated Global Bonds due 2012 (the "2012 Bonds")
for any and all of the Republic of Ecuador's

US$1,655,395,000 Collateralized Par Bonds due 2025
US$1,434,671,000 Collateralized Discount Bonds due 2025

US$2,308,344,000 Past Due Interest Bonds due 2015
US$190,744,000 IE Bonds due 2004

US$350,000,000 11.25 per cent Fixed Rate Eurobonds due 2002
US$150,000,000 Floating Rate Eurobonds due 2004

collectively, the "Existing Bonds"

The aggregate outstanding principal balance of all
Existing Bonds is approximately $6,461,402,000.

The Republic of Ecuador (*"Ecuador"* or the *"Issuer"*) hereby offers to exchange its 2030 Bonds and 2012 Bonds for the Existing Bonds on the terms set forth herein (the *"Exchange Offer"*). The 2030 Bonds and 2012 Bonds (collectively the *"Global Bonds"*) will be direct, unconditional and unsecured obligations of Ecuador.

A holder of Existing Bonds may only participate in the Exchange Offer by delivering a Letter of Transmittal at or prior to 5:00 p.m., New York time, on August 9, 2000 to Citibank, N.A. (the *"Exchange Agent"*) at the address specified in the Letter of Transmittal by hand, courier, facsimile or electronically. Letters of Transmittal for the tender of Existing Bonds may also be delivered to the offices of Banque Internationale à Luxembourg S.A. (the *"Luxembourg Exchange Agent"*) at the address specified in the Letter of Transmittal, with a copy to the Exchange Agent.

Ecuador may at its option terminate the Exchange Offer if the total outstanding principal amount of tendered Existing Bonds is less than 85% of the aggregate outstanding principal amount of Existing Bonds or if, in the opinion of Ecuador, completion of the Exchange Offer would not result in the rescission of the acceleration of any Existing Bond that may have previously been accelerated.

The Global Bonds will be in registered form, without interest coupons. The Global Bonds are being offered outside the United States to holders of the Existing Bonds in reliance on Regulation S under the United States Securities Act of 1933, as amended (the *"Securities Act"*), and the Global Bonds are also being offered to Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) in a concurrent offering in the United States to holders of the Existing Bonds.

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange. Application has also been made for publication of quotations for the Restricted Bonds in the Private Offerings, Resale and Trading through Automated Linkages Market (*"PORTAL"*), a subsidiary of The Nasdaq Stock Market, Inc., and for designation of the Restricted Bonds as "PORTAL Securities."

See "Investment Considerations" for a discussion of certain important matters that should be considered by holders of Existing Bonds before deciding to participate in the Exchange Offer.

Global Coordinator

Salomon Smith Barney

Joint Dealer Managers

Salomon Smith Barney | J.P. Morgan & Co.

Highlights

- One of the largest exchange offerings ever from Latin America
- First Exchange of defaulted Bradys
- Successfully created a sustainable and credible debt profile for one of the least creditworthy countries then on record
- First sovereign restructuring after official sector burden sharing debate
- $6.46 billion of eligible bonds for Exchange (6.08 billion face amount)
- Exchange generated 98.51% bondholder participation
- $1.25 billion of 2012 Global bonds and $2.70 billion of 2030 Global bonds issued out of the Exchange
- The Exchange utilized several innovative new features to increase bondholder participation
- Generated highly positive international press

Overview of Exchange Strategy for Ecuador

Key Ecuador Objectives

- Achieve maximum possible debt reduction in terms of both NPV and Cash Flow savings
- Create sustainable debt profile which encourages future administrations to not default
- Satisfy the demands of diametrically opposed constituencies, each with ability to derail the entire transaction:
  - Intransigent Ecuador Congress: As much debt reduction as possible
  - Hostile Bondholders: As little debt reduction as possible; Collateral release; Maintenance of par claim for some holders
  - IMF, Paris Club, Official Sector Creditors: Quick resolution; need to remain aloof from negotiations
- Obtain as high participation rate as available from participants in order to maximize overall debt reduction
- Difficulty in communication in limited timeframe with all classes and types of bondholders, dispersed globally

Solution

- Offer to exchange all Brady and Eurobonds for new Global 12 and 30 year bonds:
  - The 30 year Global was structured as a Step Up Coupon bond, allowing Ecuador near term flexibility to recover and accommodate growing debt capacity
  - To facilitate Ecuador's need for greater claim reduction, Exchange participants could enter a second exchange for the higher coupon 2012 Global Bond
- Designed two innovative features which encouraged participation in the Exchange:
  - Mandatory Debt Retirement
  - Reinstatement Feature
- The Exchange also utilized Exit Consents, which weakened bonds that did not participate. The Consents substantially increased Exchange participation
- The Exchange dramatically achieved Ecuador's debt management and NPV objectives

The Results of the Exchange Offer

Republic of Ecuador Exchange Offer

Issuer	Republic of Ecuador
Rating (prior to Exchange)	Caa3 (Moody's)
Structure	Exchange of Defaulted Pars, Discounts, IEs, PDIs, 11.25% Eurobonds and Floating Rate Eurobonds (the "Eligible Bonds") for new Global bonds
Amount of Eligible Bonds:	$ 6.088 billion
Amount Exchanged:	$ 5.997 billion *(98.51% participation)*
2030 Global Bonds Issued:	$ 2.701 billion
2012 Global Bonds Issued:	$ 1.250 billion
Discount Bonds:	Total Eligible Bonds: $1.435 billion Amount Tendered: $1.418 billion *(98.82% participation)*
Par Bonds:	Total Eligible Bonds: $1.655 billion Amount Tendered: $1.637 billion *(98.51% participation)*
PDI Bonds:	Total Eligible Bonds: $2.308 billion Amount Tendered: $2.292 billion *(99.31% participation)*
IE Bonds:	Total Eligible Bonds: $191mm Amount Tendered: $186mm *(97.38% participation)*
11.25% Eurobonds:	Total Eligible Bonds: $350mm Amount Tendered:: $335mm *(95.71% participation)*
Floating Rate Eurobonds:	Total Eligible Bonds: $150mm Amount Tendered: $145mm *(96.67% participation)*
Global Coordinator	**Salomon Smith Barney**

The New Global Bonds

Republic of Ecuador 12.00% due 2012

Issuer	Republic of Ecuador
New Bond Rating:	B-
Structure	12-Year Global Fixed Coupon
Amount	US$ 1.250 billion
Coupon	12.00%
Debt Management Feature:	Under the Debt Management Feature, Ecuador commits to retire 10% of the original outstanding amount per year beginning in year 2006, reducing the stock of outstanding 12-year bonds to no more than 40% by 2011.
Reinstatement Feature:	No Reinstatement Feature on the 2012 Global bonds
Maturity	11/ 15/ 2012
Exchange Closing & Settlement Date	8/ 23/ 2000
Global Coordinator	Salomon Smith Barney
Current Price	59.75%

Republic Of Ecuador Step Up Due 2030

Issuer	Republic of Ecuador
New Bond Rating:	B-
Structure	30-Year Global Step Up Coupon
Amount	US$ 2.701 billion
Coupon	4.00%, Increasing 1.00% Annually until 10.00% in 2006
Debt Management Feature:	Under the Debt Management Feature, Ecuador commits to retire 3% of the original outstanding amount per year beginning in year 2013, reducing the stock of outstanding 30-year bonds to no more than 49% by 2029.
Reinstatement Feature:	If Ecuador defaults on the 2030 Bonds within 10 years, and such default remains unremedied for one year, each holder of 2030 Bonds at that time shall be credited with additional 2030 Bonds as follows:

Year of Default	Amount each holder's 2030 Bonds are increased by a factor of:
2000 - 2004	1.3 times
2004 - 2007	1.2 x
2007 - 2010	1.1 x

Maturity	08/ 15/ 2030
Exchange Closing & Settlement Date	8/ 23/ 2000
Global Coordinator	Salomon Smith Barney
Current Price	36.20%

Overview of the New Global Bonds

On August 23, 2000, Ecuador closed its Exchange Transaction, ending a year of default and issuing new Global bonds.

The Ecuador Offering Generated the Highest Demand Ever for a Sovereign Exchange after a Major Crisis and Default

The Exchange set several new precedents and introduced a new era in restructuring and a sovereign's abilities to transact with the private and official sectors.

- The Exchange yielded a debt service profile consistent with Ecuador's sustainable repayment capacity
- The new bonds offered investors two innovative features to sovereign bonds:
  - Mandatory Debt Management
  - Principal Reinstatement Function
- These two features offered investors and Ecuador several protections which served to make the new bonds more attractive to investors and increased Ecuador's credibility in sustaining Ecuador's debt service capacity post Exchange
- These new bond features also encouraged future Ecuador governments to not default on the bonds, which was a key objective from the current administration and increased the credibility of this transaction

New Global Bonds—Mandatory Debt Management Feature

The Mandatory Debt Management Feature increased Ecuador's credibility that it would be able to repay the bonds upon maturity and was a cheaper method of retiring bonds instead of an amortizer.

The Mandatory Debt Management Feature Served to Increase Attractiveness of the Global Bonds to Investors and Mitigated Ecuador's Refinancing Risk at Maturity

- The Mandatory Debt Management Feature committed Ecuador to retire a percentage of its 12 and 30-year bonds in order to meet maximum outstanding balance requirements on predefined dates
- Ecuador could obtain the debt at any time prior to the target dates either by purchasing it on the open market or through debt-to-equity conversions
- The Debt Management Feature offered Ecuador
  - Flexibility (could acquire the bonds opportunistically)
  - Greater credibility to the sustainability of the debt restructuring program—interest payments lower in the future as Ecuador buys down its principal, and the bullet amortization payment to be lower
  - Ensured a demand for Ecuadorian paper in the secondary market
  - Substantial cash flow savings (buying and retiring principal from the market at a discount) when compared to conventional amortizing bonds, which pay down principal at full value

New Global Bonds—Principal Reinstatement Feature

The Principal Reinstatement Feature dramatically increased investor participation in the Exchange.

The Principal Reinstatement Feature Served to Increase Bondholders' Participation into the Exchange

Given Ecuador's restructuring in 1995, many bondholders were extremely skeptical of the sustainability of any transaction coming from Ecuador and sacrificing any new claim on principal in the future after giving up part of their claim again.

The Principal Reinstatement Feature served to refute bondholders' objections by simply demonstrating that if Ecuador were to default again within the next ten years, participants automatically have their current pre-Exchange claim reinstated and they would be returned to a pre-Exchange negotiating status.

- The reinstatement provision gave Ecuador a strong financial incentive to avoid default on the new bonds
- If Ecuador defaulted on the 2030 Bonds within 10 years, and such default remains unremedied for one year, each holder of 2030 Bonds at that time shall be credited with additional 2030 Bonds as follows

Year of Default	Amount Each Holder's 2030 Bonds are Increased by a Factor of
2000–	1.3x
2004–	1.2x
2007–	1.1x

- The reinstatement in effect returns Ecuador and bondholders to the pre-Exchange negotiations

Ecuador’s Global Note & Exchange Offer: Methodology

In order to make this a transaction that was transparent to both the marketplace and Ecuador, the transaction was designed to be acceptable to the diverse needs of various creditors and their different claims.

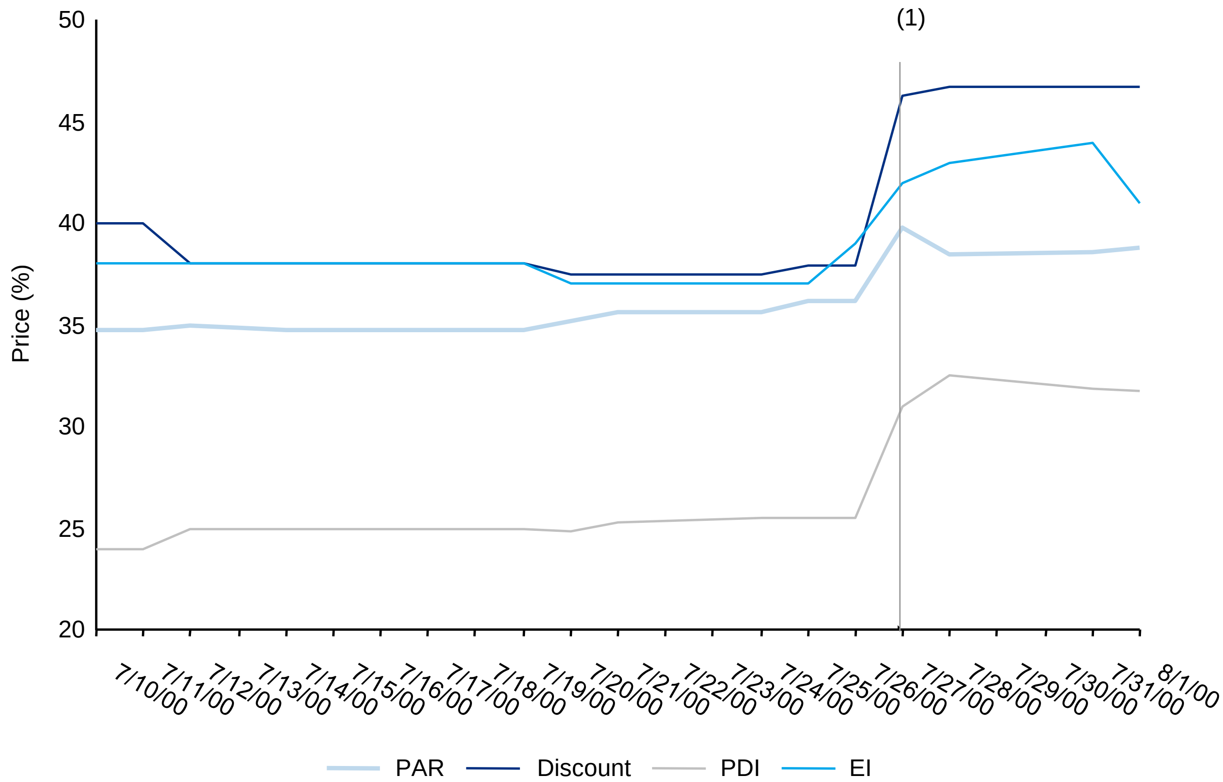
- The Exchange used a single objective methodology for valuing the cash flow claims for all series of bonds
- This methodology valued all claims at 1997 levels, when Ecuador last had capital market access
- Valued collateral at Treasury strip levels and payed it in cash
- Brought all Exchange participants current with cash
- Past due interest payments brought current
- The 2012 Bonds were used to pay accrued but not yet due interest payments
- The new debt instruments offered investors a significant pick-up relative to prices prior to announcement

Bond Price Reaction

Bond price reaction to announcement of the Exchange priced in the high probability of the transaction's success.

After the Exchange offer was announced, Ecuador bond prices rallied as investors digested the offer.

HISTORICAL ECUADOR BRADY BOND PRICES



(1) Thursday, July 27: Announcement and Launch of Brady Exchange.

Ecuador’s Global Note & Exchange Offer: Sequence of Events

Ecuador executed the Exchange in a very short-time frame ahead of new coupon payments which would have made the transaction very difficult to execute.

Summary Timeline

Date	Action
July 27th	Announcement and Launch of Brady and Eurobond Exchange Offer (the “Announcement Date”).
August 1st–3rd	Representatives from Ecuador on Roadshow in New York, Boston, and London.
August 9th	Letters of Transmittal due to the Exchange Agent Blocking instructions due to Euroclear or Clearstream Exchange period expires (5:00 p.m. New York City Time) – Announcement of extension of Exchange period
August 11th	Exchange closed.
August 14th	Ecuador announces the initial results of the Exchange Offer. 93% participation announced. Remaining holdouts allowed to participate in Exchange.
August 15th	Allocation of 2012 Global is determined and communicated
August 16th	Ecuador announces 98.51% participation
August 22nd	Ecuador transmits proceeds to custodian for settlement
August 23rd	Closing Date 2030 and 2012 bonds settle Cash paid to participants on Past due Interest and Principal and Interest on Past due Interest and Principal.
August 25th	Collateral Strips are valued using Treasury Strips yields flat Cash value of Collateral distributed to investors