

INTERNATIONAL TRADE AND FINANCE MASTERCLASS

PART 13 OF 25 · SECTION VI: CAPITAL MARKETS AND INTERNATIONAL FINANCING

PART 13

THE EURODOLLAR MARKET AND INTERNATIONAL CAPITAL MARKETS

The offshore dollar market that underlies all of global finance, Eurobond issuance, syndicated lending, development finance institutions, and how companies access capital across borders — with complete mechanics and worked examples.

IN THIS PART

- The Eurodollar market — its accidental birth and global importance
- LIBOR's death and SOFR's rise — what changed and why it matters
- The Eurobond market — issuing debt internationally
- Syndicated loans — structure, parties, and key terms
- Development Finance Institutions — IFC, DEG, FMO, and DFC
- Offshore financial centers and their legitimate uses

CASE STUDIES

Each part includes fully worked case studies with detailed calculations, real-world context, and practical lessons for CFOs and finance leaders.

■ THE OFFSHORE DOLLAR MARKET

The Accidental Creation of the World's Most Important Market

In the 1950s, the Soviet Union held US dollar reserves but was deeply reluctant to keep those dollars in US banks, where it feared the American government might freeze the accounts during a Cold War confrontation. Instead, Soviet-controlled entities deposited their dollars in European banks — primarily in London. These dollar deposits held in banks outside the United States were beyond the reach of US banking regulations, which at the time limited the interest rates that US banks could pay on deposits and restricted how banks could lend. The result was a pool of unregulated dollar deposits operating entirely outside the US banking system.

The market grew rapidly throughout the 1960s and 1970s as multinational corporations, sovereign governments, and financial institutions discovered they could borrow and deposit dollars at better rates offshore than through regulated US banks. Today the Eurodollar market — in its broadest definition — is estimated at approximately thirteen trillion dollars and constitutes the single most important source of dollar liquidity outside the United States. Every international loan denominated in dollars, every dollar bond issued outside the US, and every dollar derivative traded in London or Singapore traces its intellectual and structural roots to those Soviet dollar deposits in 1950s London.

LIBOR's Rise, Scandal, and the Transition to SOFR

For decades, the benchmark interest rate for the Eurodollar market was LIBOR — the London Interbank Offered Rate. Every day, a panel of major banks submitted the rate at which they believed they could borrow unsecured in the London interbank market. The average became LIBOR — the reference rate for approximately three hundred and fifty trillion dollars of financial contracts worldwide. In 2012, investigations revealed that banks had been systematically manipulating their LIBOR submissions — sometimes to profit on derivatives positions, sometimes to make their institutions appear healthier than they were. The scandal resulted in nine billion dollars in fines and the eventual replacement of LIBOR with the Secured Overnight Financing Rate, or SOFR, which is based on actual overnight transactions in the US Treasury repo market rather than on bank submissions.

◆ LIBOR TO SOFR TRANSITION

LIBOR TO SOFR TRANSITION – LOAN PRICING IMPACT

LIBOR CHARACTERISTICS:

Based on: bank panel submissions (unsecured rate)
 Includes: bank credit risk premium (~20-30 bps typical)
 Tenors available: 1M, 3M, 6M, 12M LIBOR

SOFR CHARACTERISTICS:

Based on: actual overnight Treasury repo transactions (>\$1T/day)
 Includes: essentially risk-free (secured by Treasuries)
 Tenor: overnight only (Term SOFR available for loans)
 Structural difference vs. LIBOR: ~26 basis points lower

IMPACT ON CORPORATE LOAN PRICING:

Old loan pricing: 3M LIBOR + 2.50%
 3M LIBOR was: 5.35% => All-in rate: 7.85%

New loan pricing: Term SOFR + Credit Spread Adjustment + Margin

Term SOFR: 5.09%

Credit Spread Adjustment (CSA): +0.26% (3M tenor)

Margin: 2.50%

All-in rate: 5.09% + 0.26% + 2.50% = 7.85%

ECONOMIC RESULT: Identical – CSA compensates for structural difference between LIBOR and SOFR

CFO action: verify all legacy loans have correct fallback language and CSA in documentation

The Eurobond Market: Issuing Debt Internationally

A Eurobond is a bond issued in a currency other than the currency of the country where it is issued. A US company issuing a dollar-denominated bond in London is issuing a Eurobond. A Japanese company issuing a yen-denominated bond in Singapore is issuing a Euroyen bond. What matters is that the bond is placed with investors outside the domestic market of the currency's home country. Companies access the Eurobond market for investor diversification, lighter regulation compared to SEC-registered bonds, and for US companies with European operations, the opportunity to create a natural hedge by issuing in the same currency as their revenues.

◆ EUROBOND ISSUANCE MECHANICS AND NATURAL HEDGE

EUROBOND ISSUANCE – COMPLETE MECHANICS

ISSUER: US Industrial Corp. (BBB+ rated)

EUR 500,000,000 7-year Eurobond

Purpose: Fund European manufacturing expansion

PRICING:

EUR 7-year mid-swap rate: 2.85%

Credit spread for BBB+ industrial: +1.25%

Coupon: 4.10% per annum

Issue price: 99.50 (slight discount = higher yield)

Yield to maturity: 4.174%

ISSUANCE COSTS:

Lead manager underwriting fee (0.40%): EUR 2,000,000

Legal fees: EUR 800,000

Rating agency fees: EUR 150,000

Listing fees (London Stock Exchange): EUR 50,000

Total issuance costs: EUR 3,000,000

Net proceeds: EUR 500M x 99.5% - EUR 3M = EUR 494,500,000

NATURAL HEDGE VALUE:

Annual EUR interest: EUR 500M x 4.10% = EUR 20,500,000

European revenue: EUR 180,000,000/year

Interest covered 8.8x by EUR revenues

Zero FX risk on interest payments

Alternative: USD bond + cross-currency swap costs +0.20%/yr

Annual saving from EUR issuance: EUR 500M x 0.20% = EUR 1,000,000

Syndicated Loans: How Large Borrowers Access International Credit

A syndicated loan is a loan provided by a group of lenders — called a syndicate — to a single borrower under a single set of documentation. It is the most common form of large-scale international corporate borrowing, used for acquisition financing, capital expenditure programs, and general corporate purposes. The syndication process begins when the borrower mandates one or more banks — called Mandated Lead Arrangers — to structure the loan and invite other banks to participate. The MLA negotiates key terms, prepares an information memorandum, and markets the opportunity to participating lenders.

01

CASE STUDY 1

NovaStar Industrial

*First Syndicated Facility — \$400M International Revolver***Background**

NovaStar Industrial had grown from a domestic US manufacturer to a multinational with four hundred million dollars in revenue across twelve countries. Its banking had remained entirely bilateral — four separate credit facilities with four banks, each at different rates with different documentation. When the CFO consolidated these into a single syndicated revolving credit facility, the financial benefit was immediate and significant.

◆ SYNDICATED FACILITY — FINANCIAL COMPARISON

NOVASTAR — BILATERAL vs. SYNDICATED FACILITY

EXISTING BILATERAL FACILITIES:

Bank A: \$80M at SOFR + 3.00%

Bank B: \$60M at SOFR + 2.75%

Bank C: \$120M at SOFR + 3.25%

Bank D: \$50M at SOFR + 3.50%

Total: \$310M | Average rate: SOFR + 3.10%

PROPOSED \$400M SYNDICATED REVOLVER (15 banks):

Rate: SOFR + 2.25% (leverage grid: 2.00% - 2.75%)

Tenor: 5 years (vs. avg 2.8yr bilateral)

Commitment fee on undrawn: 0.35%

FINANCIAL BENEFIT:

Rate improvement: 85 basis points

On average outstanding \$250M:

Annual interest saving: $\$250M \times 0.85\% = \$2,125,000$

Additional capacity: \$90M more (\$400M vs \$310M)

Extended tenor: 5yr vs avg 2.8yr — better certainty

COST: Arrangement fees \$1,400,000 + legal \$380,000 = \$1,780,000

PAYBACK: $\$1,780,000 / \$2,125,000 = 10$ months

02

CASE STUDY 2

Volta Power Ltd.

IFC B-Loan — Development Finance for a West African Power Project

Background

Volta Power Ltd. is developing a one hundred and eighty megawatt gas-fired power station in Ghana with a total project cost of three hundred and twenty million dollars. No commercial bank syndicate was willing to provide the full two hundred and forty million dollars of required debt at acceptable terms given Ghana's country risk. The IFC B-loan structure — which allows commercial banks to participate in a loan while IFC acts as lender of record — provided the solution.

◆ IFC B-LOAN – STRUCTURE AND BENEFIT

VOLTA POWER – IFC B-LOAN STRUCTURE

IFC A-Loan (IFC's own funds): \$60,000,000 at SOFR + 3.50%
 IFC B-Loan (6 commercial banks): \$180,000,000 at SOFR + 4.25%
 Total debt: \$240,000,000

WHY COMMERCIAL BANKS PARTICIPATE IN THE B-LOAN:

IFC acts as lender of record
 IFC's preferred creditor status – Ghana has never defaulted to an IFC loan (record since 1956)
 Commercial banks get preferred creditor protection by participating behind IFC
 Banks hold Ghana exposure with lower capital charge

WITHOUT IFC: Rate would be SOFR + 6.50% if available at all
 Blended IFC rate: SOFR + 4.02%
 Annual interest saving: \$240M x 2.48% = \$5,952,000
 Over 15-year project life: \$89,280,000 in interest savings

IFC REQUIREMENTS (significant):

Environmental and Social Impact Assessment
 Equator Principles compliance
 Community benefit framework
 Anti-corruption due diligence
 Annual monitoring for full loan life
 Preparation time: 18-24 months

03

CASE STUDY 3

Pacific Resources Corp.

Eurobond Natural Hedge — Matching EUR Assets with EUR Liabilities

Background

Pacific Resources Corp. had substantial European operations generating one hundred and twenty million euros of annual EBITDA, but all its debt was USD-denominated. This created a translation mismatch and currency risk on interest payments. The CFO issued a EUR five hundred million Eurobond and used the proceeds to retire USD debt, creating a natural hedge between EUR-generating assets and EUR-denominated liabilities.

◆ EUROBOND NATURAL HEDGE – FINANCIAL BENEFIT

PACIFIC RESOURCES – NATURAL HEDGE VALUE

BEFORE EUROBOND (all USD debt):

USD debt: \$600M at 5.5% = \$33M annual interest

To pay USD interest: must convert EUR revenue to USD

FX risk: if EUR weakens 10%, revenue falls 10% in USD

Interest coverage ratio vulnerable to EUR/USD movements

AFTER EUROBOND (60% of debt now EUR-denominated):

EUR Eurobond: EUR 330M at 4.1% = EUR 13.53M annual interest

Remaining USD debt: \$240M at 5.5% = \$13.2M annual interest

EUR interest funded directly from EUR EBITDA

No FX conversion needed for EUR 13.5M interest payment

FINANCIAL IMPACT:

EUR issuance rate (4.1%) < USD equivalent (5.5%)

After cross-currency consideration: saves EUR 4-5M/yr

FX risk on interest eliminated for EUR tranche

Interest coverage more stable across EUR/USD cycles

Investor diversification: accesses EUR investor base