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SSA Hybrids
An emerging asset class

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SSAs set out on their hybrid capital journey

GlobalCapital welcomed an exclusive group of SSA issuers and investors for a private GC Live breakfast briefing dedicated to SSA Hybrids on February 27 in London.

The development of hybrid capital for supranational and agencies issuers is one of the most exciting developments in the capital markets over the last couple of years. The SSA sector is well known in the bond markets as issuers of some of the most popular bonds; popular because they are seen as very simple, liquid and highly rated, often AAA.

The possibility that a new asset class could emerge for SSA paper that is subordinated with a much more complex credit structure is therefore attracting a lot of interest. The ultimate purpose, of course, is to raise more capital for public agencies, to give them more capacity to fulfil their mandates of financing sustainable development, especially in developing countries.

A few institutions have been working on deals behind the scenes for several years, including the African Development Bank, which has been preparing to issue since 2020. But what really galvanised attention was the publication in July 2022 of a report to the G20 on multilateral development banks' capital adequacy frameworks. Unlike many other worthy reports on how to make MDBs capital go further, this one really captured the attention of policymakers and of the MDBs themselves.

One of its recommendations was that MDBs could issue hybrid capital. Because of the strong buy-in to the CAF report by MDB shareholders, the sector has really woken up to this topic and many institutions are now exploring it. The World Bank agreed its first hybrid issue in a private placement with the German government last September. In January, the African Development Bank kickstarted the asset class by issuing the first deal, for $750 million, in the public market.

This proved that an investor base could be assembled that would buy a sizeable deal at a price that worked for triple-A rated MDBs. But although the asset class has now definitely begun, there is a long way to go. Some policymakers and market participants remain sceptical that it can become a fully developed asset class with a stable investor following and become a reliable and useful source of capital for public institutions. In short, there is all to play for.

Participants

Moderator: **Toby Fildes**, managing director, *GlobalCapital*

Thomas Flichy, head of global finance solutions, Barclays

Isabelle Laurent, deputy treasurer and head of funding, European Bank for Reconstruction and Development (EBRD)

Sarah Lovedee, head of supranational debt capital markets, JP Morgan

Kathrin Muehlbronner, global MDB lead, Moody's Investors Service

George Richardson, director, capital markets and investments department, treasury, World Bank

Omar Sefiani, treasurer, African Development Bank (AfDB)

***Toby Fildes, GlobalCapital:* So, our first question is: Why are multilateral development banks considering issuing, or have issued, hybrid capital? Omar, let's start with you.**

Omar Sefiani, AfDB: For us, and we call it now a journey, it started in 2020 and this was before the G20 Capital Adequacy Framework review. The African Development Bank was always looking at opportunities to increase its lending capacity.

We looked at the asset side through securitisation transactions, synthetic securitisation transactions, but we started also looking at the liability side because there are really mainly two ways of increasing lending capacity: either you reduce the risk on the asset side, or you increase your risk-bearing capacity.

So, it started in 2020. Obviously, there was quite a lot more to do. The asset class already exists within commercial institutions, the corporate market and so on but it wasn't exactly adapted to the multilateral development banks. And the first year and a half we spent with banks trying to figure out how to get hybrid capital to work for an MDB. So quite a long process.

Just to give you an idea of some of the obstacles we had, we needed to ensure that it could get 100% equity content, IFRS, but also from the three key rating agencies, because if not – well, we may be able to increase our lending capacity to some extent but very quickly we would reach a roadblock. And so yes, that work continued.

In the summer of 2022, we received approval from our board of directors to issue hybrid capital. That was an important milestone for us because we had completed the structure and now we were in a position where we could start looking at getting the deal to market.

We were looking at two venues: a friends-and-family transaction with countries, philanthropic organisations, and at the same time the capital markets transaction.

Now the capital markets transaction is, let's say, a bit more challenging in some sense but also easier in another. When you discuss this new structure with countries, it's not very easy to get the buy-in while there isn't a tangible instrument in the street.

So, we focused on the capital market transaction. We were pretty much ready to issue last summer. We started marketing the transaction and, of course, you know the rest. There was volatility, so we had to postpone, and we were very happy to see that there was a good window of opportunity early January.

One last point I would like to add is that for us the Capital Adequacy Framework review was clearly a big boost, a big turning point because it gave a lot of credibility to what we were trying to do.

George Richardson, World Bank: 'Journey' is a great word. Our journey actually began after AfDB's journey. And, as you said Toby, ours started in earnest when the G20 Capital Adequacy report came out.

Hybrid capital is not something new. Some people here in this room are experts on it. It's been around for a couple of decades in the corporate and the bank context. And MDBs have considered hybrid capital in the past. Many years ago, just after the financial crisis, there were a lot of banks flying over to DC to pitch this to another DC MDB. And we were getting the second call just to hear about these things. We all looked at it and we all discarded it for the same reasons: in its basic form it doesn't fit well the MDB model at this point.

The G20 CAF report put hybrid capital in a bouquet of different measures and tools that need to be looked at by MDBs. So, hybrid capital doesn't stand on its own for us; it's part of a collection of other measures that we're all looking at and working on. And together, as our President has stated several times in public statements, we can get some sizeable amount of extra lending. But as an individual product, it's tough as Omar mentioned.

We first identified it as a problem basically with price. Hybrid capital was created by banks and corporates as an alternative to equity. MDBs have a completely different type of equity and we don't pay dividends. Our cost of equity is zero. So, the whole pricing issue becomes a very big problem because it fundamentally shifts an important part of the MDB model. This is the problem, at least at the World Bank, because we have some very large, very price-sensitive borrowers with strong voices, who object to the idea that the MDB model should fundamentally change to one where capital is raised and paid for by the borrower. Up until now, capital is paid for by the richer countries, not by the borrowing countries.

So, in the current environment, that fundamental shift might happen, in which case then we could do hybrid capital that actually is an expense over our senior. But for now we've been working more immediately on the shareholder version, where we pay no extra cost above our senior debt cost, and sell it as private placements to our shareholders. And we've got quite a bit of demand for it. One has been public; the other ones are waiting for — I can go into it later — some other innovations that we've embedded into the structure to make it more interesting to shareholders. And once that's finally decided, which I'm hoping is very soon, then the others will all start coming out [publicly].

Then at the same time for the public market hybrid capital, we congratulate the African Development Bank on their public deal because it proved that it can be done and successfully. We're learning

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Isabelle Laurent, European Bank for Reconstruction and Development

a lot from it, and eventually we may do one of those as well. The public and political pressure to do one where the private sector is bringing in that money is strong and it's mostly driven by the richer countries who find it difficult to come up with extra capital at this point, with all the other crises and wars that are putting pressure on their budgets.

So, we may have to do one of those as well. But I can go into that more later.

***Toby Fildes, GC:* Of course. Isabelle, you've heard Omar and George, what about EBRD?**

Isabelle Laurent, EBRD: I think all the MDBs since the CAF report have been, as George says, looking at all the different measures that the CAF report has produced. So it's not one thing over another but looking at different options.

The situation at EBRD, which is perhaps slightly different, at least at the moment, is that we have not historically needed paid-in capital. We've got a very high economic capital ratio. So, it's been somewhat different for us, we hadn't had a paid-in capital increase since 1995-96. At the moment, we are undergoing our first one to help us support Ukraine.

So, whilst we are in the process of doing a paid-in capital increase, the first for 20 years, it's much harder to start looking at hybrid capital issuance. But we're looking at all the developments, and congratulations to AfDB for the transaction. We will definitely learn a lot from these things.

There are a couple of issues that have been touched on already. We need to look at the ability for price-sensitive borrowers, whether we can pass on additional costs, what those costs will be, how we create an investor base and what that investor base would look like. It's definitely neither the AT1 [i.e. bank additional tier one capital] investor base, nor is it the MDB traditional investor base, at least for the current kind of transactions.

As a result, you end up with these very different pricing models, which will make it harder, especially if one wants to do anything sizeable. If you can do up to 10% of your tier 1 capital in these kinds of transactions, is even the investor base that AfDB found for the transaction successfully able to buy substantial volumes and hold substantial volumes of our transactions? And if not, where is the price sensitivity and how do we pass this on? And will it help us achieve what we are setting out to do?

So, it's very important that these steps have started to be taken and we are in a fortunate place that we're able to evaluate some of this, to see how things trade, to see what other developments there will be, what other ways there may be of finding a new investor base for this product that may be somewhere between the one that AfDB found and the one that George at World Bank found, in terms of placing hybrids to shareholders at no additional cost. Maybe there's something inbetween that we don't yet know.

"Our general view on the [Capital Adequacy Framework] report has been very positive. We think those are sensible recommendations. They will allow the MDBs to raise lending, which is the ultimate aim of the report, without endangering the high ratings."

Kathrin Muehlbronner, Moody's

***Toby Fildes, GC*: Kathrin, you heard Omar describe it as a journey; I presume you were involved for most of that journey, or at least your company was involved for most of that journey, is that right?**

Kathrin Muehlbronner, Moody's: We certainly have seen the proposals at an early stage. We actually rated the AfDB transaction finally last week. We find it very interesting, analytically challenging. One issue that already is visible will be the big question for us is whether there will be some kind of standardisation, in particular around triggers? Or will those be very individual, different types of transactions?

Our general view on the CAF report has been very positive. We did say very explicitly we think those are sensible recommendations. They will allow the MDBs to raise lending, which is the ultimate aim of the report, without endangering the high ratings.

On hybrids, we've also been pretty positive. It's a type of security that has been around for others for a very long time. We felt that it is certainly something that MDBs could add to their capital structure. We apply the same principles that we apply for hybrids issued by other issuers, taking into account the specificities of MDBs.

An interesting aspect for us is the rating. Obviously not every transaction, in particular those for shareholders, needs a rating, but the public transactions I guess will.

For us there is a correlation between the equity content and the rating. The higher the equity content, the higher the loss absorption of the instrument, the closer it is to equity, the more we will notch down. The equity content for the AfDB transaction for us is 100% and we notch it down three notches from senior: so Aa3.

We had a proposal a few years ago from the West African Development Bank which didn't come to market, but for us that was also three notches down, a 75% equity credit instrument. So, there is probably a tension between equity content and the rating of the instrument there.

And one thing we also made clear is we expect this asset class to develop gradually and what I've heard so far confirms this. We've also said, like in other sectors, we will limit hybrids to 30% maximum in the capital structure. Isabelle talks about 10%; obviously it will take a long time to get there.

***Toby Fildes, GC*: What about Sarah and Thomas? You're involved**

"It certainly is the first really new thing we've had for a while. A lot of the panellists have been talking about a journey. To me, we're still very much in that early stage and there are a lot of questions I think we all need to spend some time on."

Sarah Lovedee, JP Morgan

on the other side of the desk as it were. And I think certainly Thomas you were involved on the first deal as well. Going back to this word, the journey…

Thomas Flichy, Barclays: We had the pleasure to work with Omar and the AfDB team on their inaugural trade, a ground-breaking transaction from many aspects obviously. It's a very interesting phase of the journey. I think clearly addressing Recommendation 3 of the CAF report is the main driver for a hybrid transaction by an MDB. But to the issuers' point, it is not necessarily a magic bullet. It needs to be addressed together with the other CAF report recommendations to bolster the lending activity of the MDBs.

What's interesting is, to your point George, it may be easier for commercial banks and corporates to justify issuing hybrid capital i.e. paying up for hybrid capital vs. senior funding.

For commercial banks, obviously if the cost of equity is well above 10%, and you can issue AT1s at 6%, or 7% on a post-tax basis, it's obvious that a layer of those instruments makes sense to avoid diluting your shareholders. Likewise, it makes sense for corporates.

Obviously, the trickier part is, if you're not going to remunerate your shareholders, which most MDBs I understand don't, it's a lot harder to justify any premium over seniors.

The good news, though, is that we are at a point where the strength of the market which is quite exceptional — especially after what we witnessed earlier last year with Credit Suisse and the writedown of its AT1 bonds.

I think the AfDB hybrid pricing surprised all market participants. And just yesterday Barclays printed a transaction for BP plc in the dollar corporate hybrid market which achieved an exceptional senior-subordinated differential of 120bp. So 120bp is still meaningful but this is for a single-A-plus rated company.

I personally think there is appetite out there for those instruments at a much lower premium than what we've seen to date for the best rated MDBs.

***Toby Fildes, GC*: Sarah, you work deep in the SSA market — this is probably the most interesting thing to have happened to this market for a long time.**

Sarah Lovedee, JP Morgan: It certainly is the first really new thing we've had for a while. A lot of the panellists have been talking about a journey. To me, we're still very much in that early stage and there are a lot of questions I think we all need to spend some time on. Omar's transaction was incredibly successful but there's that building block of what happens in the secondary market. How do we continue to build that investor base? Where is that investor base? Where is that trading desk sitting? Is it rates, is it credit? These are all really interesting questions to think about.

The other angle is we've also heard again that it's not a one-size-fits-all approach to doing more. It's not necessarily just about having more capital; there are concentration ratios to think about. There are all sorts of different things that come into this. And making sure that we have some sort of vaguely standardised product will help. And George, we were talking about this before the panel — making sure that either the product is relevant or maybe isn't relevant and where we go from there. So, I'm interested in hearing views on where we go from here.

***Toby Fildes, GC*: If we consider Omar's deal as the public version of this product, how big could this version of the product become over the next, let's say, five years? What do we think?**

Thomas Flichy, Barclays: Well 30% of the paid-in capital for MDBs is about $160bn I believe. So that's a big number. If we assume MDBs issue hybrids worth 10% of their paid-in capital initially, this is c. $50bn, still obviously a material number, but which can be well absorbed by the market we believe. The bank AT1 market just for Europe is about $200bn, the corporate hybrid market for Europe is about $200bn; obviously those markets have been around for the better part of the last two decades. Those amounts were issued over time. But there is definitely a market out there for MDBs, we believe.

George Richardson, World Bank: Let's assume for a moment that the issuers are willing to pay that extra price and that the fundamental business structure of an MDB shifts, in which case the borrowers are happy shouldering some of the cost of raising capital. Let's assume that scenario. The AT1 market is the size that was just mentioned but there's a US pref share market that really hasn't been tapped yet. That's big as well. And this community is capable of bridging markets, as it has in other products. MDB's have done it before with other bond products.

So, if we can look at this on a global scale, then I think we can easily do the 30% rating agency limit, if, again, we're willing to pay the price.

In terms of scale and size, these other issues such as whether these things have the right risk weighting or where it's traded, etc, these things will still need to be worked out. For example, the bid-offers in hybrid capital bonds are completely alien to the bid-offers MDBs are used to. The type of investors that bought the AfDB deal are different from those that buy regular AT1s and pref shares.

Where does this settle out? We don't know. But it would settle out because the size of the market is huge and the appetite for highly rated instruments exists. From an investor's point of view, why not get paid extra for really high credit quality paper?

Toby Fildes, GC: **Omar, you've done the first deal. The institution has spent years developing its investor base and growing it and making sure it's high quality and that it can stick with you in good times and bad. The hybrid is a slightly different beast though, isn't it? You've come up with a different investor base, pretty much. Are you happy with that?**

Omar Sefiani, AfDB: Yes. It's natural, it's a bit of a chicken-and-egg situation. It's difficult to get an investor base for a product that doesn't exist, or is just about to exist. And I believe that, as time passes and the product gains traction and you have more issues and there are maybe more standards as well, the investor base will change and will be progressively adapted to the product.

Today most of the investor base is comprised of, what? You have hedge funds and fast money accounts — highly technical. They understand new products, they can cope with difference. You have some asset managers as well. And then we have the classic SSA buyers, which represent a very small piece of the investor piece. That's the current investor base. But I bet you in five or 10 years from now that investor base may look quite different.

The product has to be there also for the investor base to change and evolve and we have various aspects that can impact it.

For example, a question that we received quite a few times is: "Is it in an index?" It can't be in an index because it's the first product. But once it gains traction and is put in an index, then investors will have to participate more in it.

So, we think that — and maybe to Sarah's point — yes, there is still quite a bit of work to do. This is one important step I would say. But I'm quite confident that this will happen and all these pieces will fall into place. When we started the work on hybrid capital, there were so many uncertainties, so many things that we did not know. We did not know if there was going to be such an important investor base; even the AT1 market, would they be interested in a lower coupon? Things like that. But yes, you have to have a bit of faith for these things to move forward.

A quick second point on pricing: the way we view pricing, we've looked at the impact of hybrid capital, this issue, but also if we ramped up hybrid capital to the one third limit that rating agencies have, what would be the impact on our clients?

The response is in the single digit basis points [on the cost of loans]. Best case, low single digits, worst case high single digits. It's pretty much in the single digits.

Now, if you look at our cost of funding from one year to another, based on market conditions, you can have a deal done, let's say at Sofr plus 33bp. The same maturity, six, eight months, one year after, can be done maybe at Sofr plus 40bp So you already have some variability in your funding costs. So we see the 1bp-2bp or 9bp-10bp as a marginal impact compared to the added capacity we have.

And any product, just because it's been evaluated slightly differently, if you take even a guarantee, you have to pay for that guarantee as well. So any product will have some impact. The advantage here is that the transfer of the cost is actually quite transparent within the balance sheet, quite transparent to the client.

Toby Fildes, GC: **You mentioned possibly one day an index being developed. Sarah, do you think that could happen?**

Sarah Lovedee, JP Morgan: Yes, I think so. Like Omar said, when there's one [deal outstanding] that's quite a hard shift. Over time we will see that. Again, we need some sort of standardisation but it's a discussion our investors will want us to have, particularly in that space where it's potentially even more important than in the traditional SSA area.

George Richardson, World Bank: For all underwriters, I would beg you guys to not create a new index but to include us in the existing ones. Because otherwise, who is going to follow those indexes that are so focused on MDBs? We want to be part of the bigger market. If we're going to be issuing these bonds, we want to be part of the regular indices.

Thomas Flichy, Barclays: That's a good point. We decided for our AT1 trader to trade the AfDB hybrid transaction and it's the right call because most of the AfDB investors also do buy AT1s. So it fits well with the AT1 population, even if it's slightly different.

Toby Fildes, GC: And do you think that the work you did on the first transaction — Kathrin we talked about standardisation, the work at the rating agencies is surely a form of standardisation? Or do you think you'll have to approach each deal on a standalone basis and start work almost from scratch?

Kathrin Muehlbronner, Moody's: Yes and no. As I said, we have general principles we look at where we use the cross-sector methodology. We just updated that methodology and we said

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explicitly that it doesn’t apply to MDBs. But the general principles are the same. We look at maturity, the hybrid needs to have a very long maturity, ideally permanent. It needs to have a strong coupon suspension trigger and it needs to be subordinated, of course. And for us to go from 50% or 75% equity credit to 100%, which I think is what MDBs will aim for, it needs to have a writedown or conversion characteristic in it.

So we’ll look at every proposal with these key characteristics in mind but at the moment, there are still variations. What we have seen or what the IBRD has done is different in terms of triggers to what the AfDB transaction has done. So we’ll continue to look at each one separately. Standardisation, I think, would make it easier for the market and for investors. But we’re happy to look at all sorts of structures.

Toby Fildes, GC: **Isabelle, we’ve heard 10% or 30% — but does it move the needle enough?**

Isabelle Laurent, EBRD: It’s hard to know. I think the issue is about cost. I don’t wish to doubt that Omar’s calculations are well founded, but what concerns me is extension risk. If we start to see costs suddenly go up very substantially, do we believe that an MDB is going to find it easy to call a transaction and then put in place a new transaction to cover for that, when it’s got to be a key part of its capitalisation to continue to lend more at a vastly significant cost?

That’s what concerns me. It’s less where we are to start with. And if we start to see that it’s difficult for an MDB to call transactions, so they are more like perpetuals, actually will any investor base that has been created on the basis that it will behave mostly the way the AT1 market does and is called, will that continue? If you have increased very substantially the amount you’re lending on the back of such issuance, that’s an even greater concern.

I certainly wouldn’t say that we’re at the bottom of some sort of spread cycle, so I would think that there’s a very high extension risk.

Thank goodness, the AfDB chose to do a 10 year in this instance, because I will probably have retired, unless they’ve changed the rules at EBRD, by the time we see whether it’s being extended or not.

I think it’s a real issue, and the costs could be very, very substantially higher than the single digits currently calculated and hard to pass on.

And parts of EBRD’s lending are at a fixed spread. So that would have to be changed. We would have to be able to pass on something that is substantial, whether it’s 10% or 30% [of our capital]. Obviously 30% is more problematic.

Toby Fildes, GC: **It’s a thorny issue but one that’s been part of the hybrid market for years, right?**

Thomas Flichy, Barclays: Yes, it’s interesting to see the difference between the US and Europe here. In Europe, I agree with Isabelle, the vast majority of hybrid issuers have tended to call and replace, even if it was more expensive to do so. This is true for the vast majority of the banks and the corporates — Santander as an issuer was a clear exception but they are in the minority.

In the US, the preferred new issue market has not been very active over the last year or so, because it was more expensive for US banks to replace their preferreds. So they were able to extend.

It’s interesting that most US preferreds investors seem to be comfortable with the risk of extension of those US preferreds and for them not to be called, if it’s more expensive to replace.

Whereas, in Europe, we are hearing from a vast number of investors that they expect calls to take place, even if it’s more expensive to replace.

So it will be interesting to see how the investor base develops for MDBs and whether we are heading more towards the US preferreds market or the European hybrid market in this regard.

Isabelle Laurent, EBRD: And I would assume that it gives quite a different pricing *ab initio*, depending on whether you believe that it could be a perpetual. And certainly there will be a large swathe of investors that won’t feel able to buy it, especially if it’s not as easily tradeable.

Toby Fildes, GC: **Can this go into the agency sector as well? Sarah, what do you think? We don’t just stop at MDBs presumably, can we expect this to spread further?**

Sarah Lovedee, JP Morgan: It’s certainly something that the whole community is looking at. There are at least two agencies that have accessed this product in slightly different guises in the past. So it’s certainly a conversation that everybody is following and will have implications, which helps us think about a market that is broader than it might be today.

Toby Fildes, GC: OK. We’ve got time for some questions from the audience.

Audience member: **If I can make a comment first, about price-sensitivity? At least at the African Development Bank, the countries borrowing from it are coming to [the debt] market at much higher levels, so I don’t believe [the extra cost of loans**

to pay for hybrid capital] will be a problem.
My question is, the World Bank transaction is not well known. How does Germany look at it — is it ODA [official development assistance] or not? For the World Bank and for some shareholders it might be important for the pricing of the hybrid to be concessional, so why not have no return at all on it, rather than pricing it in line with senior debt?

George Richardson, World Bank: Good question. I could spend all day talking about this product. Essentially, we created something that would be applicable in the majority of cases and the most possible cases. And within that world of shareholder capital, we have different version. And Germany's transaction happens to be one version which is ODA-eligible.

We recently got the OECD to accept our draft documents [as ODA eligible] because the final one isn't done until the preferencing issue is resolved and I'll mention that now.

But they've said that [it counts as ODA] as long as the capital is provided permanently by the shareholder and the shareholder does not take the coupon. On these bonds, the coupon is paid but the shareholder forgoes that coupon and directs it somewhere else. We've given a couple of options like the concessionality fund (now called Livable Planet Fund) within the World Bank. They can basically donate that coupon so the coupon never goes to them. So the shareholder puts in capital, it's perpetual, does not get a coupon and, finally, it does not trade. With all these features, this version of hybrid capital is just like paid-in equity.

Some shareholders are interested in ODA treatment for their investment. Some others have the ability to put this hybrid investment into a portfolio of theirs and don't care so much about the OECD ODA treatment. So therefore they're happy to take that coupon.

So we had to do something that balanced those different types of shareholders. Importantly for all was that it does not impact the lending price of the bank, because as opposed to other MDBs, we have the largest middle income countries on our balance sheet.

They are large, some of their trading levels in the capital markets are not so far away from our lending ratesbad. In fact if we raise our lending prices by just a little bit, we suddenly become uncompetitive for some of these borrowers. So they're very vocal about having extra cost passed on to them.

That's not the case in Africa generally but across the world to include some of these large middle income countries, that was a big issue for us. So as a compromise between the shareholders that wanted us to do hybrid capital in the capital markets and the borrowers who didn't, our Board approved a pilot, as usually we do in MDBs. We put a maximum of $1bn size on that pilot approval.

We went through the same analysis that Omar described for the African Development Bank, and the cost increase caused by that $1bn is tiny compared to the rest of the funding cost pass-through.

And this was back then when hybrid capital spreads were much wider. AT1s were 250bp, US prefs were 180bp. So we ballparked it back then, this was just over a year ago, and it turned out to be an impact of 1bp to 3bp — arguably meaningless.

But you should have heard the objections; even 1bp is a fundamental shift, which has never happened before.

But the shareholder version is really interesting because it has different flavours. The one that Germany did and most of the ones that are interested [are going to do] will become public once the preferencing issue [is finalised].

We're giving the shareholders the ability to direct the future sectoral decisions of where we lend, if they were to buy this shareholder capital.

Most shareholders care about paying capital into our MDBs because they get voting shares. We give no voting shares for this.

So, we had to give something else. Trust funds, vertical funds, special purpose funds around the world — their growth and their capital receiving from shareholders has grown exponentially over the last 20 years. Yet for MDBs, on an inflation-adjusted basis, it's maybe stayed the same.

What's the difference? The difference is that when shareholders give money to, say, the Green Climate Fund, they get to announce to their constituents and tax payers what the money is being used for. Some care about vaccines, some care about pandemics.

So we said "let's give that option" and we call it preferencing. It doesn't earmark capital but it helps direct future decisions of where lending goes in the future. How exactly we will do this is not determined yet, and the Board has yet to approve the final version of this. That's going to come to a conclusion within, hopefully, the next month or two.

And then once that's decided, then the other shareholders will make public their shareholder hybrid capital investments and we will be able to get the final legal documents across to everyone.

Toby Fildes, GC: We've only got time for that one question I'm afraid. But on behalf of all of us, thank you so much for a terrific first panel. GC

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