

ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-41-47
JEL Codes: G11, G15

Developments in the Russian Syndicated Loans Market

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ABSTRACT

Aim and subject. This article presents an overview of important developments in the Russian syndicated loans market. This market has become an essential source of funding for corporations, financial institutions, and projects aimed at the growth of the Russian economy. **Method.** The latest market data, legislative developments, and the main stages of executing a syndicated loan transaction are reviewed. **Results.** Loan structures utilized in the market are analyzed, including bridge loans, revolving credit facilities, term loans, pre-export finance facilities and project finance loans. **Conclusion.** The comparison of “local” and “international” syndicated loans is proposed, together with an overview of sustainable syndicated loans and technological developments affecting the loan market.

Keywords: syndicated loans; Russian capital markets; financial regulation; investment banking; financial technology

For citation: Tarasov Alexey. Developments in the Russian syndicated loans market. *Review of Business and Economics Studies*. 2022;10(1):41-47. DOI: 10.26794/2308-944X-2022-10-1-41-47

ОРИГИНАЛЬНАЯ СТАТЬЯ

Изменения на российском рынке синдицированных кредитов

Алексей Тарасов

АННОТАЦИЯ

Предметом и целью статьи является анализ событий, происходящих на российском рынке синдицированных кредитов, являющихся важнейшим источником финансирования корпораций, финансовых институтов и проектов, направленных на рост российской экономики. **Метод.** Представлены последние рыночные данные, законодательные изменения и основные этапы оформления сделки синдицированного кредита. **Результат.** Сделан анализ кредитных структур, включая срочные и промежуточные кредиты, возобновляемые кредитные линии, кредиты предэкспортного и проектного финансирования. **Вывод.** Предложена методика сравнения «местных» и «международных» синдицированных кредитов, а также представлен обзор устойчивых синдицированных кредитов и технологических разработок, влияющих на кредитный рынок.

Ключевые слова: синдицированные кредиты; российские рынки капитала; финансовое регулирование; инвестиционная деятельность банков; финансовые технологии

Для цитирования: Тарасов А.А. Изменения на российском рынке синдицированных кредитов. *Review of Business and Economics Studies*. 2022;10(1):41-47. DOI: 10.26794/2308-944X-2022-10-1-41-47

1. Introduction

A syndicated loan is provided to the borrower by a syndicate of lenders. It is structured, arranged, and syndicated by one or several bookrunners, who use the primary loan market to share the risk among the wide base of potential lenders that are rewarded by fees for joining the deal [1]. The key features of the syndicated loans market are the following [2]: (i) loans are provided to borrowers including corporations, banks, development institutions, project finance special-purpose vehicles (“SPVs”); (ii) lenders are commercial and investment banks, as well as institutional investors; (iii) there is a wide range of loan instruments that can be structured to suit the borrower’s requirements; (iv) the set of facility documents are prepared by reputable legal firms based on templates developed by market associations; (v) the transaction execution standards are well tested and accepted by the market players; (vi) the flows of funds and information between the borrower and lenders are channelled via the Facility Agent; (vii) there is an active secondary market for trading syndicated loans.

Globally, the syndicated loan market is one of the largest debt markets, with 2020¹ volumes totalling 3,5 tn USD across 6,890 deals. To note, due to the pandemic, this represents a decrease of 23.0 in volume and 20.2 per cent in deal count compared to the 2019² results. Bridge loans, used to finance mergers & acquisitions (M&A), decreased by 15.2 per cent to USD 249.2 bln, while their total number fell by 7.4 per cent to 159. JP Morgan ranked as the top bookrunner with a 9.56 per cent market share, followed by BofA Securities (8.41 per cent) and Citi (5.65%). In 2019, prior to the effects of COVID-19, the market registered total volumes of 4,4 tn USD, with the total number of deals being 8,164. The total volume of bridge loans was USD 293.3 bln (141 deals). BofA Securities was the No.1 bookrunner with a 9.63 per cent market share, while JP Morgan (9.17 per cent)

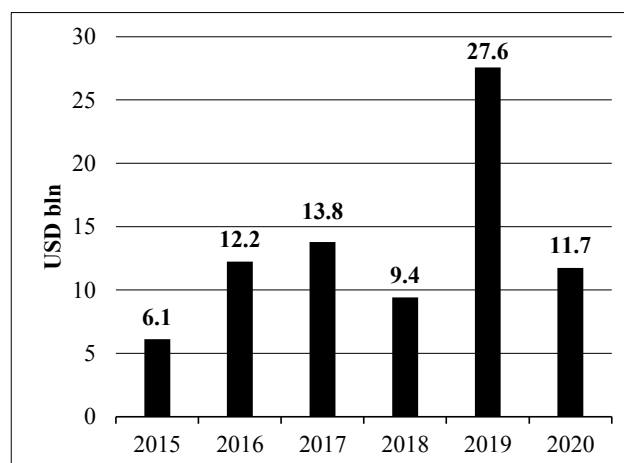


Fig. 1. Dynamics of the Russian syndicated loans market, USD bln

Source: Cbonds and the author.

and Citi (5.70 per cent) ranked second and third, respectively.

This article is dedicated to the latest developments in the Russian syndicated loans market and is the continuation of research presented in [3–4]. This market is an important source of capital for corporate borrowers and financial institutions (“FIs”) whilst also providing the long-term project finance funds required for the growth of the Russian economy. The first section presents a general overview of the Russian market, including deal volumes, major borrowers and lenders (from both the corporate and FI spaces), as well as the major recent legislative developments relating to syndicated lending. The second section is devoted to the description of loan structures used by borrowers for various specialized financing purposes, including bridge loans, revolving credit facilities (“RCFs”), term loans, pre-export finance facilities (“PXF”), and project finance loans. An important development in the market of the past few years is the rise of sustainable loans. The third section presents the main stages of executing a syndicated loan transaction and the technological developments (such as web-based systems for information exchange during syndication) affecting the loan market.

2. Overview of the Russian loan market

Despite the significant negative impact of COVID-19 and global economic uncertainty,

¹ Bloomberg. Global Syndicated Loans Review. Full Year 2020. <https://www.bloomberg.com/press-releases/2021-01-04/bloomberg-global-syndicated-loans-league-tables-fy-2020>

² Bloomberg. Global Syndicated Loans Review. Full Year 2019. <https://www.bloomberg.com/press-releases/2020-01-02/bloomberg-global-syndicated-loans-league-tables-fy-2019>

Table 1
Terms & Conditions of Syndicated Loans for Russian Borrowers in 2020

Parameter	NLMK	SUEK	EuroChem	Sovcombank
Industry	Metals & mining		Chemicals	FIs
Instrument	RCF	PXF	Term Loan	
Volume	EUR 600 mln	USD 800 mln	USD 460 mln	USD 350 mln
Purpose	General corporate purposes	General corporate purposes and refinancing		Trade finance operations
Date	July 2020		October 2020	December 2020

Source: Cbonds and the author.

the Russian syndicated loans market demonstrated moderately positive results in 2020. A significant number of deals was executed in the market with a total volume of USD 11,7 bln.³ Compared to 2019, as expected, the market showed negative dynamics (–57,4 per cent in terms of volumes); however, the market still managed to exceed the 2018 results (+24,6 per cent). Please refer to Fig. 1 for the Russian syndicated loans market volumes in 2015–2020.

Among the deals done in 2020 were transactions utilizing different structures of the loan market (bridges, RCFs, term loans, PXFs, project finance) for the leading borrowers from the major industries of the Russian economy: metals & mining, chemicals, FIs, oil & gas, transport. Table 1 presents the details of major selected transactions.

The major lenders in the market were leading European banking groups (UniCredit, Societe Generale, ING, Credit Agricole, Deutsche Bank) with a total market share of 50%, mainly due to the arrangement of RCFs and PXFs. Russian banks and development institutions (Sberbank, VTB, Gazprombank, Alfa-Bank, VEB.RF) were focused on term loans and project finance transactions, with a market share of 20%. Most of the remaining market share was distributed among American and Asian banks (such as ICBC and Citigroup).

It can be said that some of the most notable market developments were related to legislation. The Federal Law dated 31.12.2017 “On Syndicated Credit (Loan)...”⁴ has provided an important impetus for the Russian loan market, including defining loan market terms and stream-lining legal processes, expanding the availability of funding for borrowers, providing for the participation in the market of institutional investors. The Federal Law “On amendments...”⁵ changed and further expanded this law by covering such important issues as funded sub-participation deals, optimization of procedures relating to loan security, and the actions of the lenders and the Facility Agent in cases involving syndicated loans in bankruptcy proceedings.

A cornerstone feature of the market is the availability of Russian-law documentation templates developed by the Association of Banks of Russia⁶ (“ABR”). These documents are used for “local” deals, mainly bridge loans and project finance facilities, denominated in RUB and provided by Russian banks and development insti-

⁴ Federal Law dated 22.12.2020 No. 447-FZ “On Amendments to the Federal Law “On Syndicated Credit (Loan) and Amendments to the Legislative Acts of the Russian Federation” and to Certain Legislative Acts of the Russian Federation”.

⁵ Federal Law dated 31.12.2017 No. 486-FZ “On Syndicated Credit (Loan) and Amendments to the Legislative Acts of the Russian Federation”.

⁶ The English language website of the Association of Banks of Russia can be found following the link: <https://asros.ru/en/>. The documentation for the syndicated loan market is developed by the Committee for Investment Banking Products (link to Russian language website is: <https://asros.ru/committee/iproduct/>).

³ Cbonds. The financial data vendor and news agency. <http://loans.cbonds.com/>

Table 2

Comparison of “Local” and “International” Syndicated Loans in the Russian Market

Parameter	“Local” Syndicated Loan	“International” Syndicated Loan
Industries	FMCG, Retail, Transport	Metals & Mining, Oil & Gas, Chemicals
Instruments	Bridges, Term Loans, Project Finance	RCFs, Term Loans, PXF
Banks	Russian State and Commercial Banks, Development Institutions	European, American and Asian Banks
Legal Counsels	Russian Law Firms	International Law Firms
Documentation	Russian-Law documents developed by the ABR	English-Law documents developed by the LMA

Source: Cbonds and the author.

tutions [5]. The boilerplates of the Loan Market Association⁷ (“LMA”), governed by English law, are used for “international” deals, such as PXFs provided to Russian commodities exporters in USD/EUR by global banks [6]. The comparison of “local” and “international” loan deals is presented in table 2.

3. Russian Loan Market Instruments

For borrowers, syndicated loans offer a bigger volume than bilateral loans and more flexibility of terms and structure than Eurobonds [7]. This section will present the major structural parameters of the five main instruments utilized by Russian borrowers in the syndicated loans market [8].

- **Bridge loans.** *General description:* short-term facilities used to stop-gap the financial needs of the borrower between spending cash and raising of longer-term funds from capital markets; *volume:* up to USD 200 mln; *purpose:* usually for financing M&A deals; *tenor:* 3–6 months, with an extension option of up to 1 year; *repayment:* by a bullet at maturity; *security:* none; *key terms & conditions:* due to the short-term nature of such loans, they are usually provided on a covenant-lite basis; *syndicate composition:* club of 2–3 banks acting as mandated lead arrangers (“MLAs”); *deal schedule:* 4–6 weeks.

- **RCFs.** *General description:* medium-term instrument utilized in tranches for maintaining the liquidity position of the borrower, usually from the metals & mining and telecom industries; *volume:* USD 200–250 mln; *purpose:* working capital; *tenor:* up to 3 years with individual tranches being of 3/6/12 months; *repayment:* all tranches must be repaid at maturity of the RCF; *security:* none; *key terms & conditions:* RCFs can be committed or uncommitted, depending on the borrower’s requirements; *syndicate composition:* 3–4 banks acting as MLAs; *deal schedule:* 6–8 weeks.

- **Term loans.** *General description:* standard medium-term instrument market used by Borrowers for general corporate purposes; *volume:* USD 250–500 mln; *purpose:* financing capital expenditures and refinancing of the current loan portfolio on more favourable terms; *tenor:* 3–5 years; *repayment:* by a bullet at maturity (for tenors of up to 3Y) or in semi-annual instalments (for tenors longer than 3Y); *security:* guarantees/sureties provided by holding and operating companies of the borrower’s group; *key terms & conditions:* package of financial covenants, including Net Debt/EBITDA, EBITDA/Interest Expense, and Tangible Net Worth; *syndicate composition:* 2–3 banks as bookrunners, 5–7 as MLAs (depending on loan volume); *deal schedule:* 8–10 weeks.

- **PXFs.** *General description:* the most common instrument used for raising long-term funding by leading Russian exporters from

⁷ The website of the LMA is: <https://www.lma.eu.com/>. The documents & guidelines are available following the link to members-only: <https://www.lma.eu.com/documents-guidelines/documents>

various commodities industries; *volume*: USD 500–750 mln; *purpose*: financing of trade operations; *tenor*: 5 years; *repayment*: in equal quarterly instalments following a grace period of 1–2 years; *security*: assignment of rights under export and sales contracts, withholding rights on special bank accounts, guarantees/sureties provided by trading companies of the borrower's group; *key terms & conditions*: the set of financial covenants includes the debt-service cover ratio and the loan-life cover ratio; *syndicate composition*: 1–2 banks as coordinators, 4–5 banks as bookrunners, up to 10 banks as MLAs; *deal schedule*: 10–12 weeks.

- **Project finance loans.** *General description*: structured long-term loans granted to SPVs for greenfield projects, usually in the oil & gas, chemical, and transport industries; *volume*: exceeding 750 mln USD; *purpose*: construction of industrial facilities, mining projects, the building of roads, ships and aircraft's financings; *tenor*: 7 years and longer; *repayment*: depending on the cash-flow of the project with repayments starting during the operation phase once the investment phase is completed; *security*: pledge of shares, fixed assets (mortgage, equipment), sales contracts; *key terms & conditions*: full set of specialized covenants to mitigate the construction, technical and market risks; *syndicate composition*: 2–3 banks as financial advisors, landmark deals can include up to 20 banks as lenders; *deal schedule*: more than 12 weeks.

An important development in the Russian market is the increasing importance of syndicated loans linked to sustainable development indicators [9]. The largest Borrowers use such loans to achieve the goals related to Environmental, Social, and Corporate Governance (“ESG”). Borrowers provide these loans in the Russian market according to the “Social Loan Principles”⁸ developed by leading credit market associations⁹: the Loan Market Association, the Asia-Pacific Loan Market Association, and the

⁸ The Social Loan Principles are available following this link: https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf

⁹ Please refer to the specialized sections of the associations' websites for further information: LMA: <https://www.lma.eu.com/sustainable-lending>; APLMA: <https://www.aplma.com/en/gsl>; LSTA: <https://www.lsta.org/news-resources/sustainability-linked-loans-published>

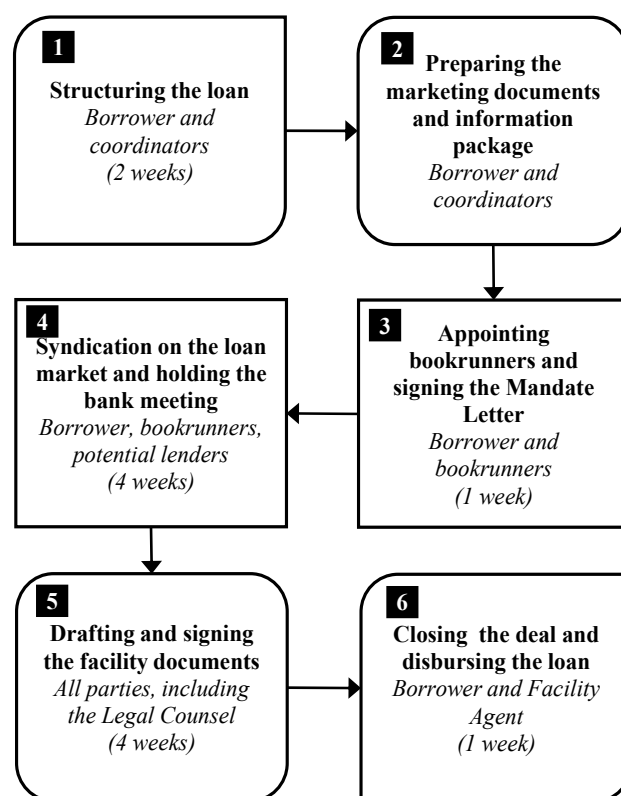


Fig. 2. The main stages of executing a syndicated loan transaction

Source: The author.

Loan Syndications and Trading Association. An example of sustainability linked syndicated loan in the Russian market is the USD 1,085 bln PXF for UC Rusal.¹⁰ This deal was closed in 2019, with proceeds going for refinancing purposes. The margin of the loan depends on the achievement by UC Rusal of key performance indicators in the ESG sphere.

4. Transaction Stages and Technology in the Russian Loan Market

The following are the main stages of executing a syndicated loan transaction [10] (please, also refer to Fig. 2):

1. **Structuring stage**: the borrower (with the assistance of coordinators for large transactions) sets the main terms of the potential facility according to its financial requirements.

2. **Preparation stage**: the borrower updates its investor presentation and financial model, as well as the latest International Financial Reporting Standards (“IFRS”) financial statements,

¹⁰ Additional information on UC Rusal is available here: <https://rusal.ru/en/press-center/press-releases/rusal-wins-perfect-10-deals-of-the-year-txf-award/>

while the coordinators prepare the Invitation Letter and the Information Memorandum

3. Appointment stage: the borrower chooses the bookrunners who will be handling the syndication process and then signs together with them the Mandate Letter (that also includes the Term Sheet).

4. Syndication stage. The borrower and the bookrunners agree on the syndication strategy and list of potential lenders to be invited to the deal; the bookrunners send out the marketing documents and information package; make the necessary arrangements for the bank meeting and then handle the information requests from potential lenders during their credit approval process; finally, the bookrunners collect the Commitment Letters from approved lenders and together with the borrower finalize the composition of the syndicate.

5. Documentation stage. The borrower and the coordinators appoint the Legal Counsel for the transaction from a panel of international law firms; once engaged, the legal counsel starts work on the facility documents using the relevant templates (including the multi-party Facility Agreement, security documentation, fee letters, legal opinions); the documentation stage proceeds in parallel to the syndication process, with all parties reviewing the drafts and submitting their comments to the legal counsel.

6. Closing stage. All required documents are signed by the borrower, lenders, and the Facility Agent, while the legal opinions are issued by the Legal Counsel; following the certification by the Facility Agent that all Conditions Precedent have been completed, the funds under the facility are provided by the lenders to the borrower.

The efficiency of the execution process is considerably improved by the technological developments significantly affecting the loan market. The adoption of web-based systems, such as DebtDomain¹¹ and Intralinks,¹² for information exchange, improves the efficiency of the syndication stage. The bookrunners of

the loan conclude an agreement with one of the service providers and upload to the cloud the key documents of the syndication stage (Invitation Letter and Information Memorandum) and the information package (updated investor presentation, financial model, latest IFRS financial statements) to the servers. Then emails are auto-generated and sent to the list of potential lenders, who are granted access to the deal data after registering and accepting the Non-Disclosure Agreement. During the syndication stage, the documents can be updated by the bookrunners, and based on the requests of the potential lenders' new materials can be uploaded to the cloud (for example, rating agency reports and reports of independent consultants concerning the operations of the borrower). Based on this data, the potential lenders receive their credit approvals and then provide their feedback regarding participation in the deal to the bookrunners.

The secured signing of the facility documents can be achieved using qualified electronic signature technology. It allows to streamline the process and have all the documents signed by all parties (borrower, lenders, Facility Agent) within one business day online, with the legal counsel controlling the procedure in real-time. Following the signing of the facility documents, all settlements and communications under the syndicated loan are executed via the Facility Agent. The optimization of the agent's duties can be achieved by using special algorithms for the automation of its role. Such algorithms use specialized software, web-based systems, and qualified electronic signature.

5. Conclusion

The moderately positive results demonstrated by the Russian syndicated loans market in 2020, taken together with the progressive legislative developments, allow for optimistic expectations regarding the medium-term prospects of this important market. However, it should be noted that international and local macroeconomic and financial factors will be significantly affecting the market going forward.

The most important trend for the market is the further expansion of "local" deals. Such loans are provided by Russian banks in RUB,

¹¹ DebtDomain. Provider of web-based systems for loan syndication, secondary loan sales and agency. <https://www.debt-domain.com/>

¹² Intralinks. Provider of secure collaboration software and secure online document sharing solutions. <https://www.intralinks.com/>

using the documentation templates governed by Russian law developed by the ABR. In the future, it can be expected that the library of such documents will be expanded to cover all instruments of the syndicated loans market, including bridge loans, term loans, and project finance loans.

The development of transaction standards and technology represents another challenge for

the market. This should allow for more efficient execution of syndicated loan transactions by decreasing the deal schedule, thereby allowing the borrowers to receive the required funds in shorter timeframes. For lenders, the adoption of such technology, as web-based systems for information exchange, should optimize the syndication process in terms of required resources for deal execution.

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