Sectoral Sanctions on Venezuela

• In addition to Venezuelan SDN designations, financial sanctions target government and oil/gas industry

• Prohibit U.S. Persons from transactions in:
  • New debt (90 day maturity) by PdVSA
  • New debt (30 day maturity) or new equity by Government of Venezuela
  • Government bonds issued before August 25, 2017
  • Distributions of profits to government for entities it owns or controls
  • Securities purchases from government
Sectoral Sanctions on Venezuela

- General Licenses provide some exceptions
- General License 3 permits transactions related to certain specified bonds
- Permitted bonds do not include so-called 2036 bond, currently held by Venezuelan government
- New debt transactions and purchase of securities with CITGO Holding, Inc. and its subsidiaries also permitted
- FAQ 524 bars derivatives transactions where reference bonds are not permitted bonds, but is not clear regarding single-name or index derivatives that reference Venezuela government debt generally
Venezuela Additional Provisions

• Additional Provisions for Certain Venezuelan Entities: Excluded Obligations and Excluded Deliverable Obligations were published by ISDA on September 19, 2017
• Reference Entities: República Bolivariana de Venezuela (“Venezuela”) or Petroleos de Venezuela, S.A. (“PdVSA”) and entities owned, controlled by, or acting for or on behalf of, Venezuela
• Excludes Restricted Debt from the scope of “Obligations” and “Deliverable Obligations”, meaning that the debt that can trigger a Credit Event or be delivered in a CDS Auction is explicitly limited to debt that is permitted under the Order
Venezuela Additional Provisions

- “Restricted Debt” is debt that is covered by the Order and not permitted (under General License 3 or otherwise)
- "Order" includes U.S. Executive Order 13808 of August 24, 2017 or subsequent executive order, legislation, regulation or similar action implemented by the United States Office of Foreign Asset Control (“OFAC”) imposing a sanction on debt of a Covered Reference Entity
- Allows for additional sanctions and changes to what constitutes Restricted Debt
Venezuela Additional Provisions

• Applies to new single-name trades using the relevant Latin America Transaction Types entered into on or after September 19\textsuperscript{th}
• For index transactions, applies to Series launched from September 19, 2017 onwards for the relevant Transaction Types
• However, transactions on an earlier Series of the index do not apply the Venezuela Additional Provisions, even if the Trade Date is after September 19, 2017. This ensures that all transactions on the same Series of an index are fungible.
Venezuela AP Protocol

- Applies the Venezuela Additional Provisions to legacy trades
- Reference Entities: Only República Bolivariana de Venezuela (“Venezuela”) or Petroleos de Venezuela, S.A. (“PdVSA”)
- Maintains fungibility between legacy and new transactions and ensures that the Sanctions Order does not prevent legacy transactions from being included in any CDS Auction that might be held in future
- CCPs are expected to reflect the Protocol changes in their clearing rules
Adhering to the Protocol

• Protocol page: http://www2.isda.org/functional-areas/protocol-management/protocol/33
• The Protocol adherence period is from October 11th to October 25th at 5:00 pm New York time
• The Implementation Date is October 26th