

Interest-Rate Swaps (IRS) for cash managers

The situation

Your firm has a long-term deposit of \$1,000,000 which is currently earning a floating interest rate. Market analysts have predicted that interest rates will soon fall, so you want to protect yourself against this possibility. In the past, low interest rates have reduced your return on surplus funds and you do not want this to happen again.

The product

An Interest-Rate Swap (IRS) is the most widely-used way of managing interest rates on longer-term cash deposits. An Interest-Rate Swap allows you to swap your floating interest rate for a fixed interest return for the period. We will accept the floating rate on your cash deposit and guarantee you a new fixed rate of interest for however long the Interest-Rate Swap lasts. In this way, your firm is protected against any fall in floating interest rates.

The solution

You expect to have \$1,000,000 for the next 3 years. This deposit is currently earning a 1-month floating interest rate so you come to us for a 3-year Interest-Rate Swap. This swap will be at a rate of 5%. When this is put in place, you will pay us a floating 1-month interest rate, which cancels out your 1-month return on the cash deposit. We will give you a fixed 5% return for the agreed period of the Swap. This guarantees you a fixed return of 5% on your cash deposit.

The benefits

- The swap gives you full protection from falling interest rates.
- The swap provides certainty when you are planning for your business.
- We can reverse the swap if you no longer need it.

Features

- Any bank can give you a swap. It doesn't have to be the bank, which holds your funds.
- We can arrange an Interest-Rate Swap before you need to use it. These are generally known as Forward-Start Swaps.
- Interest-Rate Swaps can be put in place for periods from 1 to 10 years. We provide Interest-Rate Swaps in all major currencies and we can tailor them to suit your needs.
- We can provide swaps for any floating interest rate - every month, every three months, every six months or every year. We can offer you a fixed rate for your deposit.