

## Options on Interest-Rate Swaps (Swaptions) for cash managers

### The situation

Your firm has \$1,000,000 in USD and you want to protect your return on these funds for the coming 3 years. People are uncertain what interest rates will be in the future. Some people think rates will be higher, others feel they will be lower. In the past you have used Interest-Rate Swaps but you know that if you use an Interest-Rate Swap now, you may give up the possible benefit of higher interest rates.

### The product

A Swaption is another product, which can be very useful in these circumstances. Basically, it is an option on an Interest-Rate Swap. It gives you the chance to use an Interest-Rate Swap at a certain fixed rate, but you do not have to do so. In this way it protects you against falling interest rates while giving you the freedom to enjoy any increase in rates. If you enter into a Swaption you will need to pay us a premium. A Swaption gives you a period of time when you can use a certain fixed return on your funds. You might do this if this guaranteed rate is a better rate than would be available in the market.

### The solution

You expect to have \$1,000,000 in USD available to invest for a 3-year period. You want to protect your firm against falling interest rates and guarantee a minimum return of 5%. At the same time, you want to be able to take advantage of any possible rise in interest rates. You buy a Swaption from us at a rate of 5% for a 3-month period. Let us see how the Swaption would work.

### Two examples

- In 3 months' time the Interest-Rate Swap rate for 3 years is at 4.5%. You use your Swaption and ask us to provide you with an Interest-Rate Swap for this period at the agreed rate of 5%. We do this and your 5% return for the time you have left is protected. (Alternatively you could ask us to pay you compensation equal to a margin of 0.5% for the same period.)
- In 3 months' time the Interest-Rate Swap rate for 3 years is at 5.4%. You do not want to use your Swaption and instead deposit your funds at the market rate of 5.4%. In these circumstances the Swaption protected you against falling interest rates and also allowed you to take advantage of the rise in rates.

### The benefits

- The Swaption will give full protection against falling interest rates.
- The Swaption will give you the freedom to benefit if interest rates move higher.
- You can sell the Swaption back to us at any time. The swaption may have some value depending on the time left and rates at that time.

## Features

- We can provide any Swaption to meet your needs.
- We provide Swaptions for cash managers in all major currencies and for a wide range of maturities. The option period can last for any length of time, but generally no longer than 12 months.
- You can negotiate a Swaption with any bank. It does not have to be the Bank holding your deposit. You can use it for any deposits you have or are going to make.
- A premium is payable beforehand when the transaction is agreed
- The premium you pay will depend on:
  - the guaranteed rate compared with the Interest-Rate Swap rate at the time of the transaction, how long you want the Swaption for; and
  - the outlook for rates