

Forward Rate Agreement

This Product Disclosure Statement is in reference to RBI Circular dated 16.09.2021, Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021.

This document contains standard information about the product which may enable the user to determine if the product will meet its hedging needs and to facilitate comparison with other products.

Features

A forward Rate Agreement (FRA) is an over-the-counter contract between parties that determines the fixed rate of interest to be paid or received beforehand, based on a specified principal amount. The purpose of the FRA is to hedge risk of higher yields of the reference obligations in the future. The FRA locks in the yields of the reference obligations and thereby hedges the risk of higher yields in the future.

By entering into Forward Rate Agreements (“FRA”) transactions, Non Resident FPIs are able to lock-in the yield at which they can sell debt securities in their portfolio on a future date thereby mitigate the interest rate risk.

Benefits

This product allows Non Resident FPIs to lock in yields and thereby eliminating interest rate risks.

Building Blocks:

The building blocks of the transaction are:

- (1) Spot Price of the underlying exposure; and
- (2) INR Overnight Index Swap curve

The mark-to-market value of the product is determined by the value of different parameters reflecting the market condition at that time, as well as the terms and tenor of the product (which may have been impacted by the market movements since the inception of the purchase of the product).

Costs and fees, including break-up and details

The FRA cost consists of market cost which is determined through Bid/Offer spread of building blocks, tenure of the FRA, notional, administrative costs, Capital charge and transaction handling charges.

An Illustration how product works

Issuer	ISIN	Coupon in (%)	Maturity	Notional Amount (in Cr)	Settlement Date	Forward Reference Yield	Forward Reference Dirty Price
GOI	IN0020200112	5.22	15-06-2025	10.0	13-06-2023	7.2025%	97.9084

On FRA maturity date, the Bank and client net settle the amount equivalent to difference between Reference Security Price and Forward Reference Price. If Reference Security Price is less than Forward Reference price then Bank pays the client the difference between two and vice versa. The amount is calculated as below:

Net Settlement Amount: $\text{Principal Amount} * (\text{Forward Reference Price} - \text{Reference Security Price}) / 100$

Pay-off Profile

Forward Reference Price	Reference Security Price	Gain/Loss in INR for ABC Pte. Limited
97.9084	98.50000	-0.5916
97.9084	98.0000	-0.0916
97.9084	97.5000	0.4084
97.9084	97.0000	0.9084

Risks

- Interest rate not moving as anticipated by the client
- Cash outflow on settlement/unwind of FRA
- Liquidity risk: Low volumes or illiquidity in the market
- Bid-offer spreads in case of unwind

Terms and conditions: The terms and conditions applicable for booking/termination will be guided by deal term sheet/sanction letter/ISDA document