

INR FCY Coupon Only Swap (COS)

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 risk management objective and to facilitate comparison with other products.

Features

A Coupon Only Swap (COS) is a type of currency swap under which two parties exchange only coupon cash flows in two different currencies on every coupon payment date. Coupon Only Swap allows the user to convert the INR Liability (interest of the INR liability) to an FCY liability which can be in turn used to repay INR liability obligation. Here, user undertakes to pay FCY coupon and receive INR coupon on the respective exchange dates.

Illustration:

For a payable underlying in INR where user converts fixed rate liability into USD floating rate liability

The underlying exposure for this transaction is INR liability. User has undertaken this transaction to convert the coupon of this INR liability to USD liability. By entering into this transaction, user would look to benefit from the coupon differential (derived from interest rate differential) between the INR and USD cash flows.

Building Blocks:

The building blocks of this swap are as below:

- a. FCYINR Spot rate
- b. Overnight (FCY Rate) Curve
- c. Overnight SOFR Curve
- d. Modified MIFOR curve
- e. USDINR FX Swap
- f. FCYUSD cross currency basis curve
- g. Tenor of the swap

Costs and fees, including break-up and details

The derivative cost consists of market cost which is determined through a financial model taking above building blocks as input parameters and the price is dependent on Bid/Offer spread of the FCYINR spot rate, overnight FCY rate curve, overnight SOFR rate curve, Modified MIFOR curve, USDINR Fx swap, FCYUSD cross currency basis curve rate along with administrative costs; Capital charge and transaction handling charges

An illustration of how the product works

User receives under the swap agreement: 5.00% p.a. on INR notional
 User pays under the swap agreement: SOFR + 250 bps on USD notional
 Payment frequency: Quarterly
 Tenure of swap: 2.5 yrs
 Amortization: As per schedule given below

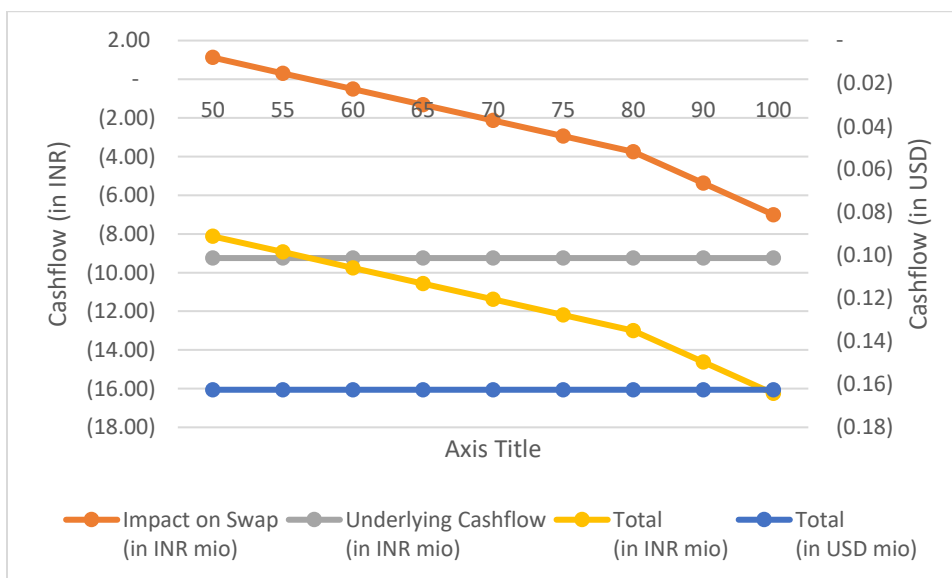
Start Date	End Date	Applicable USD Notional	USD Amortization on End date	Applicable INR Notional	INR Amortization on End date	INR coupon
28-Dec-21	28-Mar-22	10,000,000.00	1,000,000.00	750,000,000.00	75,000,000.00	9,246,575.34
28-Mar-22	28-Jun-22	9,000,000.00	1,000,000.00	675,000,000.00	75,000,000.00	8,506,849.32
28-Jun-22	28-Sep-22	8,000,000.00	1,000,000.00	600,000,000.00	75,000,000.00	7,561,643.84
28-Sep-22	28-Dec-22	7,000,000.00	1,000,000.00	525,000,000.00	75,000,000.00	6,544,520.55
28-Dec-22	28-Mar-23	6,000,000.00	1,000,000.00	450,000,000.00	75,000,000.00	5,547,945.21
28-Mar-23	28-Jun-23	5,000,000.00	1,000,000.00	375,000,000.00	75,000,000.00	4,726,027.40
28-Jun-23	28-Sep-23	4,000,000.00	1,000,000.00	300,000,000.00	75,000,000.00	3,780,821.92
28-Sep-23	28-Dec-23	3,000,000.00	1,000,000.00	225,000,000.00	75,000,000.00	2,804,794.52
28-Dec-23	28-Mar-24	2,000,000.00	1,000,000.00	150,000,000.00	75,000,000.00	1,869,863.01
28-Mar-24	28-Jun-24	1,000,000.00	1,000,000.00	75,000,000.00	75,000,000.00	945,205.48

By entering into this product, the user pays a receives rate of 5% p.a. and mitigates currency risk and looks to benefit from floating rate benchmark only on coupon amount. On each swap settlement date, both users exchange the cash flows as per the swap agreement.

Note: Here, USD leg coupon is not shown since it is dependent on floating rate

Pay-off profile:

Pay-off profile keeping on first coupon date keeping SOFR fixed at 4%



Impact Analysis

Impact analysis keeping on first coupon date keeping SOFR fixed at 4%

[USD/INR] Level	Impact on Swap (in INR mio)	Underlying Cashflow (in INR mio)	Total (in INR mio)	Total (in USD mio)
50	1.12	(9.25)	(8.13)	(0.16)
55	0.31	(9.25)	(8.94)	(0.16)
60	(0.50)	(9.25)	(9.75)	(0.16)
65	(1.32)	(9.25)	(10.56)	(0.16)
70	(2.13)	(9.25)	(11.38)	(0.16)
75	(2.94)	(9.25)	(12.19)	(0.16)
80	(3.75)	(9.25)	(13.00)	(0.16)
90	(5.38)	(9.25)	(14.63)	(0.16)
100	(7.00)	(9.25)	(16.25)	(0.16)

Note: In the above table, negative sign indicates cash outflow

Benefits

This is the risk transformation structure that allows the user to convert INR liability to foreign currency liability which can reduce the cost of liability, considering FCY interest rates are in general less than INR interest rates.

Risks

- (1) The user may lose from coupon exchange risk arising from FCY appreciation/INR depreciation
- (2) Liquidity risk
- (3) Bid-offer spreads in case of unwind

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