Treasury Consulting Pte Ltd

Spread Sensitive Swaps (SSS)

As majority of the Central Banks across the Globe are raising Interest Rates alongside rise in the OIL Prices, Trade War, Currency Wars would led to depreciation in the Emerging Markets (EM) Currencies. This would have consequential impact on the borrowings Capabilities of Local Corporates specially when the Profit Margins are very very thin henceforth they look outside the Country to meet their Working Capital Requirements which is known as **External Commercial Borrowings (ECB).**

Treasury Front Office Desk is the Desk which negotiate Tier Sheet of External Commercial Borrowings (ECB) with the lender (which is always outside the Country) alongside Sister Concern (Local Sister Concern of lender in the Country). Generally speaking 99% of the times ECB is allocated on Floating note like Libor, Euribor, SONIA and respective Floating rates + Quality Spread Differential (QSD) which is nothing but a fixed Component added in the pricing also known as Credit Valuation Adjustment (CVA).

An intelligent Front Office Desk also knows the fact that Libor is quoted 6M and if quoted less than 6M Corporate is subject to ICAP Adjustment (Received). If quoted greater than 6M Corporate is subject to ICAP Adjustment (Paid). The Valuation of ICAP Adjustment can be taken from Financial Terminals like Thomson Reuters, Bloomberg as it is subject to change too often (On a Nano Second note like a Spot Rate). Hardly 1% of the Front Office Traders knowns how to negotiate ICAP Adjustment. Treasury Consulting Pte Ltd is having extreme capability to do valuation and negotiation of ICAP while drafting Tier Sheet.

Example: Reliance Industries Limited (RIL) is taking $ 6 Billion of ECB from JP Morgan Chase, US

Corporate: Reliance Industries Limited (RIL), India
Lender (COS): JP Morgan Chase, US
Lender (POS): JP Morgan Chase, India
Tenor: 10 Years, Bullet
Rate: L+150 Bps, Payable 3M (Receiving ICAP 15 Bps)
Net Rate: L+135 Bps

** Numbers are hypothecal in nature. Just for example.

Majority of the Corporates would be hedging ECB using Principal Only Swaps (POS), Coupon Only Swaps (COS). The same majority of the Corporates are still thinking that Quality Spread Differential (QSD) of 135 Bps can't be changed as this is agreed between Bank and the Corporate. Often times we see that Corporate health is subject to change like sometimes you do better, sometimes great and sometimes an excellent job in terms of Topline, Adjusted Topline, Gross Profit, Net Profit, Middle Line and PAT basis. Changes in the Financial health of the Corporate would have direct relationship with QSD Valuation.

Here comes Spread Sensitive Swaps (SSS) – A Derivative Product invented by a **Singaporean Multinational Group – Treasury Consulting Pte Ltd.** The role of Spread Sensitive Swaps (SSS) is to take Credit Options on either side assuming CVA would cool off or worsen off.

Example: CVA would worsen Off

Hedging Entity: Reliance Industries Limited (RIL), India
Hedging Bank: JP Morgan Chase, Singapore
Mode: Non-Deliverable Credit Options – Buy Call (RIL having right), Sell Put (RIL Obliged to Deliver)

** If CVA would increase to 170 Bps then RIL would gain 20 Bps using ND Credit Options

Example: CVA would cool Off

Hedging Entity: Reliance Industries Limited (RIL), India
Hedging Bank: JP Morgan Chase, Singapore
Mode: Non-Deliverable Credit Options – Buy Put (RIL having right), Sell Call (RIL Obliged to Deliver)

** If CVA would cool off to 100 Bps then RIL would gain 50 Bps using ND Credit Options