BENCHMARK STANDARD

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Treasury Pricing

The pricing of FX and Interest Rate Hedging was one of the last hidden silos for banks – *Until now*.

The Assumption - The hedging we advise on and examine is in an OTC Market – "Over the counter". That means that there is no exchange as there is for stocks and shares. If you are buying a share in Vodafone for example – Anyone can investigate the price.

But in an OTC market, you are agreeing a specific deal, for a specific amount (or notional), for a specific date – So the two counterparties (client and bank) are making unique and specific deals that could not operate if you wanted to buy a set amount of x or y, for a set date in the future. Hence the deal is being made over-the-counter, between two counterparts, at a rate or price offered or accepted. As you can see, there is no realistic way of taking this to an exchange in the same way as a share in Vodafone.

For this reason, banks continually state that there is no "market" price that each deal is unique and therefore cannot be seen externally.

This assumption is a total fallacy that most end users are unaware of. At BENCHMARK STANDARD we wish to communicate this to all our esteemed clients.

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The Reality - Bloomberg logs bank 'offers' from hundreds of banks continually, logs the implied LIBOR (and other) curves continually. As such, a 'market' rate for (for example) a 5 year Swap or a 6 month FX Options on GBPUSD can be seen. If 1 bank was too far from that 'market' they would be brought back in to line by market forces. What is meant by 'out of line with the market'?

We are talking minute price differentials. A basis point would be seen as a huge disparity.

When banks deal with each other they go beyond even 4 decimal places of a basis point. Even large corporate get 0.25 of a basis point quotes – eg. Swap rate of 1.5125% (rather than a simple 1.51% or 1.52%).

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How does all this affect clients or BENCHMARK STANDARD Treasury Pricing?

We have access to the 'market', we can see the 'market' price for FX and Interest Rate Hedging. We use Bloomberg for that access, and can use that to help in all sorts of pricing for clients.

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Interest Rate Hedging and FX Hedging

When entering a new deal, we can tell a client the 'market' price, we can thus tell the client what margin the bank is taking in basis points, and GBP / USD / EUR.

We can negotiate effectively with the bank by using the real price to examine what is fair and reasonable as a margin.

BENCHMARK STANDARD will use our experience and knowledge working of the bank to negotiate a fair and reasonable price.

BENCHMARK STANDARD works differently with banking than others. We tell a client the market price, and then approach the bank with a deal *and price* that we wish to do the deal. We don't wait for the bank to tell us what the price is to be. This proactivity is unique in the marketplace, and helps avoid bartering and arguing. We offer the bank a deal at a reasonable margin. Clearly some negotiation is likely – they are banks – but proactivity is invaluable.

All structures can be priced, from FX spot and Forwards, to Interest Rate Fixed Rate Loans (embedded Swaps), to complex options.

In the FX arena maybe Vanilla Options, Forward Extras or Participating Forwards.

In Interest Rates from Swaps, Caps and Collars, to Enhanced Collars, Ratio Collars or Callable Swaps.

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When do you need this pricing?

All these deals can be priced upon entry to deals, ie. Check the fairness of the price when going into deals. All these deals can be priced upon exit of the deals / breaking the deals, ie. Ensure the bank is charging the correct breakage cost.

Mark to Market ('MTM') at any point – at the time of request or historic of the cost / benefit of the structure at any point. This could be for balance sheet exercises or knowledge of company position exercises.

Potential Future gains or losses – We can look at future movements in Interest Rates or FX levels in order to look at potential future mark to market positions for a company's structure(s).

FRS 102 – Any company with any sort of derivative – be that embedded in a fixed rate loan or not – has to state the 'Fair Value' of that structure, ie. The MTM. In their accounts annually.

IFRS 9 – larger clients may have to report under International Reporting Standards. This requires MTM for their derivative positions.

All of the above is perfectly possible using BENCHMARK STANDARD Treasury Pricing. This includes assistance with negotiations and actions to reduce the bank's profit margin, ultimately making the previously hidden and impossible a tangible option for our esteemed clients.

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For a FREE no-obligation consultation, or to learn more about the bespoke service range offered by BENCHMARK STANDARD, contact us today:

- 01954 200 003
- enquiries@benchmarkstandard.co.uk

Further references and testimonials are available upon request. BENCHMARK STANDARD operate an 'honest to goodness' approach to client consultation and will therefore endeavour to be truthful and transparent at every level.