

Product Disclosure Statement

This Product Disclosure Statement provides standard information of derivative products offered by IndusInd Bank Limited. It highlights a range of derivatives products relevant to both retail and non-retail users as defined by the Reserve Bank of India. This document aims to provide clients of the Bank adequate information to decide if a particular product meets your needs and facilitate comparison across a wide variety of other products.

It is mandated per regulation that prior to undertaking a transaction in any derivative product, the user should consider the appropriateness of the derivative product in light of their experience and risk management policy.

The client/user represents and warrants to INDUSIND Bank that for any transactions undertaken:

1. Client/User has read and understood the Product Disclosure statement for that relevant product
2. Client/User is familiar with the terms and conditions, risk profile and payoffs of the relevant product
3. Client/User is permitted by its internal risk management policy and has the authority to transact in the relevant product

Authorized Signatory

Name:

Organization:

Date:

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FX Forward

Key Features

A forward is a product which allows clients to lock-in a known exchange rate for a specified date in the future. The customer agrees to enter into a transaction to Buy one currency and sell another currency at a pre-agreed rate for a specified date.

Potential Users

Clients who need to hedge their asset or liability (Trade or Capital Account) in a foreign currency can use forwards to protect themselves from adverse movements in the exchange rate.

Benefits

Forwards enable hedging of foreign currency risk by converting an exposure (asset or liability) denominated in foreign currency to a domestic currency. This protects the clients from subsequent adverse movements in the exchange rates and allows them to have certainty of cash flows. Forwards have unlimited upside benefit potential and do not require any upfront payment for the client.

Risks

Forwards have unlimited downside as the client is agreeing to a fixed exchange rate determined in advance. If the currency exchange rate subsequently moves in the opposite direction, the customer is exposed to significant downside risk. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

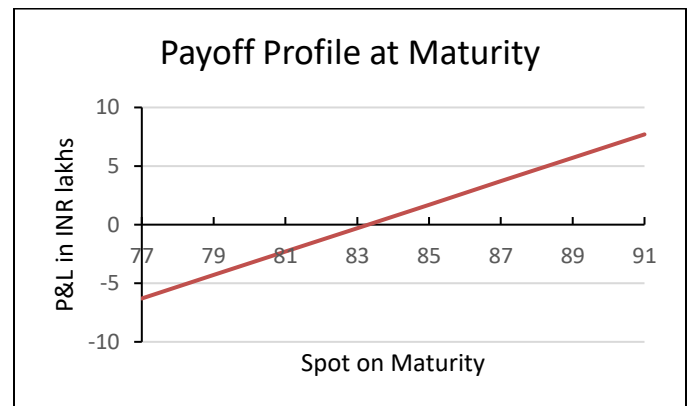
A Client has imported goods invoiced in US Dollar and has to make the payment in 3 months. The customer is exposed to the risk of rising USD/INR exchange rate as his operating currency is INR.

The Client can choose to keep the exchange rate unhedged and make the payment by purchasing US

Dollars against INR on maturity. If the Client wants to avoid the uncertainty of movement in USD/INR rates and has a view that USD/INR exchange rate will go higher, he can enter into a forward transaction to purchase USD against INR.

FX Forward	Parameter
Currency Pair	USD /INR
View	Bullish USD
Notional	100,000 USD
Client Side	Buy USD and Sell INR
Tenor	3 Months
Spot Rate	83
Forward Rate	83.30

Payoff



On Maturity, client buys USD against INR at the Forward Rate (83.30). If the spot exchange rate at maturity is higher than the agreed forward rate, the customer has realized a profit as he has purchased USD at a better rate than the current market. If the Spot exchange rate at maturity is lower than the agreed forward rate, the customer has realized a loss as he has purchased USD at a rate less beneficial than the current spot.



Interest Rate Swap

Key Features

An Interest Rate Swap (IRS) is a product in which one stream of future interest payments is exchanged for another based on a specific principal amount. Interest Rate Swaps typically involve the exchange of a fixed interest rate for a floating interest rate or exchange of one floating interest rate for another floating interest rate.

Potential Users

Clients who have a floating rate liability can use an Interest Rate Swap to convert the same into a fixed rate liability. Clients who have a fixed rate liability and a floating rate asset can use an Interest Rate swap to convert their fixed rate liability into a floating rate liability.

Benefits

An interest rate swap allows the client to hedge exposure to fluctuations in interest rates. Interest Rate Swaps can be tailored to specific client requirements on their underlying exposure like floating rate benchmark, payment frequency, day count conventions, holiday calendars, amortizations etc. They have unlimited upside potential and do not require any upfront payment from the client.

Risks

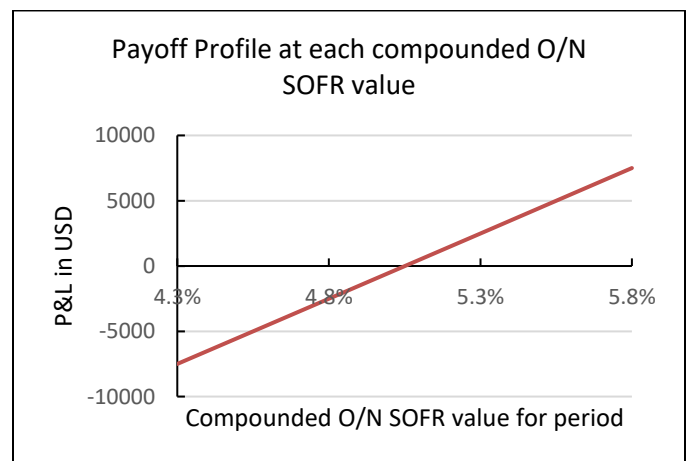
Interest Rate Swaps have unlimited downside risks if the floating interest rates move in an adverse direction. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

A Client has taken a 1 Year Loan in US Dollars against Overnight USD SOFR (compounded daily). The Client has entered into a US Dollar Interest Rate Swap wherein the customer pays a Fixed Rate of 5.00% and receives USD O/N SOFR on an annual basis. This converts Client's floating rate exposure into a fixed rate exposure.

Interest Rate Swap	Parameter
Currency	USD
View	Higher Floating Rates
Notional	1,000,000 USD
Floating Benchmark	USD O/N SOFR (daily compounding)
Client Side	Pay fixed USD and receive O/N SOFR
Tenor	1 Year
Fixed Rate	5.00%

Payoff



At maturity, client pays 5.00% on his exposure and receives compounded USD O/N SOFR. If the compounded O/N SOFR value for the period is higher than the fixed rate, the customer has realized a profit as he has paid interest at a better rate than the current market. If the compounded O/N SOFR value for the period is lower than the fixed rate, the customer has realized a loss as he has paid interest at a rate less beneficial than the current market.



Cross Currency Swap

Key Features

A Cross Currency Swap (CCS) is a product in which one stream of future interest and/or principal payments in one currency is exchanged for another stream of future interest and/or principal payments in another currency based on a specific principal amount. Cross Currency Swaps can involve the exchange of only interest, only principal or a combination of both principal and interest across two currencies.

Potential Users

Clients who have a floating or a fixed rate liability in a foreign currency can use a Cross Currency Swap to convert the same into a floating or a fixed rate liability denominated in another currency.

Benefits

A Cross Currency Swap allows the client to hedge exposure to fluctuations in interest rates and currency rates. Cross Currency Swaps can be tailored to specific client requirements on their underlying exposure like floating rate benchmark, payment frequency, day count conventions, holiday calendars, amortizations etc. They have unlimited upside potential and do not require any upfront payment from the client.

Risks

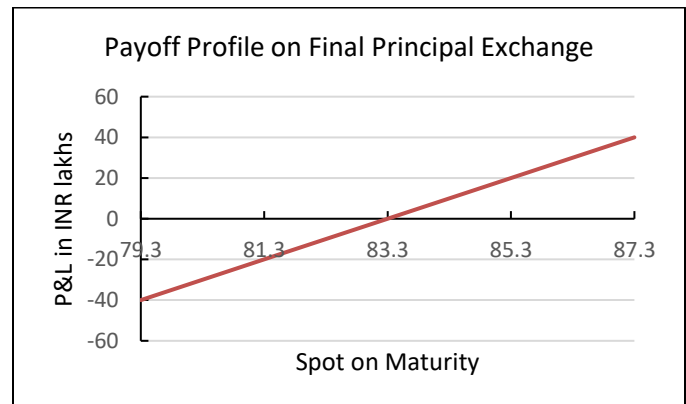
Cross Currency Swaps have unlimited downside risks if the floating interest rates / spot rates move in an adverse direction. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

A Client has taken a 2 Year Loan in US Dollars against USD O/N SOFR. The Client has entered into a US Dollar Cross Currency Swap wherein the customer pays a Fixed Rate of 5% in INR and receives USD O/N SOFR on an annual basis. This converts Client's floating rate exposure in US Dollar into a fixed rate exposure in Indian Rupees.

Cross Currency Swap	Parameter
Currency1	USD
Currency2	INR
View	Higher USD Floating Rates and/or Higher USD/INR Exchange Rate
Notional	1,000,000 USD
Principal Exchange	Yes
Initial Exchange	Client Sells USD and Buys INR at 83.30 on Spot Date
Final Exchange	Client Buys USD and Sells INR at 83.30 after 2 Years
Floating Benchmark	USD O/N SOFR compounded daily
Client Pays	Fixed Rate 5% on INR Outstanding
Client Receives	Floating Rate on USD Outstanding
Tenor	2 Years

Payoff



Payoff Profile for Interest at Each Compounded SOFR Value (P&L in INR)				
Spot/Rate	4.50%	5.00%	5.50%	6.00%
79.3	-596,500	-200,000	196,500	593,000
81.3	-506,500	-100,000	306,500	713,000
83.3	-416,500	0	416,500	833,000
85.3	-326,500	100,000	526,500	953,000
87.3	-236,500	200,000	636,500	1,073,000

Horizontal Axis: Compounded SOFR Rate, Vertical Axis: Spot Rate



FX Options: European

Key Features

A European FX Option is an Option contract which gives the holder/buyer the right but not the obligation to buy (Call Option) or Sell (Put Option) a Currency (Underlying) at a known exchange rate (Strike) at a given date in the future (expiry) for a set fee (Premium). The premium can be paid upfront or be paid in installments (deferred). The Option can only be exercised based on spot at the cut-off time on the expiry date.

Potential Users

Clients with exposure in foreign currency can enter into a European FX Option to hedge their foreign exchange risk.

Benefits

The holder/buyer of the option has unlimited participation on the upside. In addition, the downside for the holder/buyer of the option is limited to the premium paid.

Risks

If Client buys the option, they run the risk of losing the premium paid in case the option expires out of the money. In case where client sells the option, client is exposed to unlimited downside if the option expires in the money. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

A Client has imported goods invoiced in US Dollar and has to make the payment in 3 months. The customer is exposed to the risk of rising USD/INR exchange rate as his operating currency is INR. The client buys a USD/INR Call option to hedge his risk.

Long Call Payoff= $\text{Max}(0, \text{Spot}-X)$

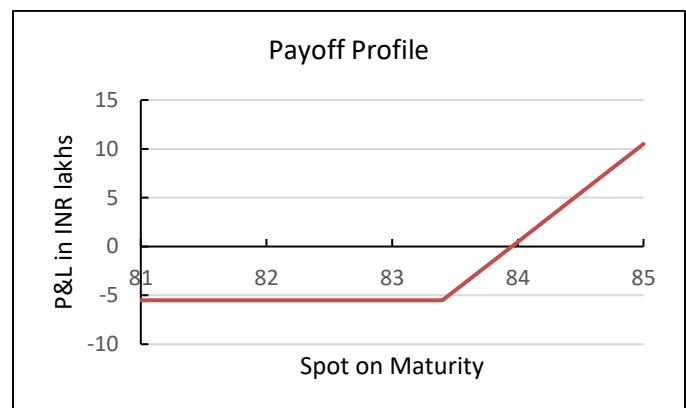
Long Put Payoff= $\text{Max}(0, X-\text{Spot})$

where X is strike price and Spot is spot ref on expiry

FX Option (European)	Parameter
Currency Pair	USD /INR
View	Bullish USD
Notional	1,000,000 USD
Client Side	Buy USD Call INR Put
Tenor	3 Months
Spot Rate	83.30
Forward Rate	83.60
Strike Rate	83.40
Cost	INR 0.55 per USD

Payoff

If Spot is above 83.40, client exercises option and buys USD 1 million at strike price (83.40). If Spot is below 83.40, client does not exercise the option and buys USD 1 million at current market rate.



FX Options: American

Key Features

An American FX Option is an Option contract which gives the holder/buyer the right but not the obligation to buy (Call Option) or Sell (Put Option) a Currency (Underlying) at a known exchange rate (Strike) at any time till the life of the option (expiry) for a set fee (Premium). The premium can be paid upfront or be paid in installments (deferred).

Potential Users

Clients with exposure in foreign currency can enter into an American FX Option to hedge their foreign exchange risk.

Benefits

The holder/buyer of the option has unlimited participation on the upside. In addition, the downside for the holder/buyer of the option is limited to the premium paid. Clients can exercise the Option at any time till expiry.

Risks

If Client buys the option, they run the risk of losing the premium paid in case the option expires out of the money. In case where client sells the option, client is exposed to unlimited downside if the option expires in the money. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

A Client has imported goods invoiced in US Dollar and has to make the payment in 3 months. The customer is exposed to the risk of rising USD/INR exchange rate as his operating currency is INR. The client buys a USD/INR Call option to hedge his risk.

Long Call Payoff= $\text{Max}(0, \text{Spot}-X)$

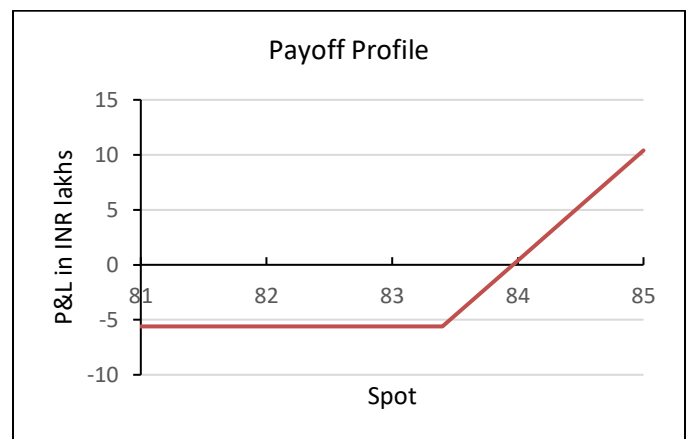
Long Put Payoff= $\text{Max}(0, X-\text{Spot})$

where X is strike price and Spot is spot ref on expiry

FX Option (American)	Parameter
Currency Pair	USD /INR
View	Bullish USD
Notional	1,000,000 USD
Client Side	Buy USD Call INR Put
Tenor	3 Months
Spot Rate	83.30
Forward Rate	83.60
Strike Rate	83.40
Cost	INR 0.56 per USD

Payoff

If Spot is above 83.40, client exercises option and buys USD 1 million at strike price (83.40). If Spot is below 83.40, client does not exercise the option and buys USD 1 million at current market rate.



FX Options: Knock In

Key Features

A Knock-In Call or Put is a modification to a vanilla Option that only starts to exist if spot trades at or beyond a pre-specified barrier level. The Option is cheaper than an equivalent Vanilla, as the ability to exercise the option is contingent on spot fixing at or beyond the barrier first. A Knock-In with a barrier that is Out of Money (Barrier < Spot for Call Options and Barrier > Spot for Put Options) is called a Normal or Regular Knock In. A Knock-In with a barrier that is In the Money (Barrier > Spot for Call Options and Barrier < Spot for Put Options) is called a Reverse Knock In

Potential Users

A Knock-In Option allows a client to participate in a favourable move in the underlying exchange rate once a predetermined spot rate known as the “barrier level” has been reached or breached.

Benefits

The product can be tailored to fit the client’s specific view on the underlying exchange rate

The Knock-In Option is cheaper than an equivalent Vanilla with same parameters

Risks

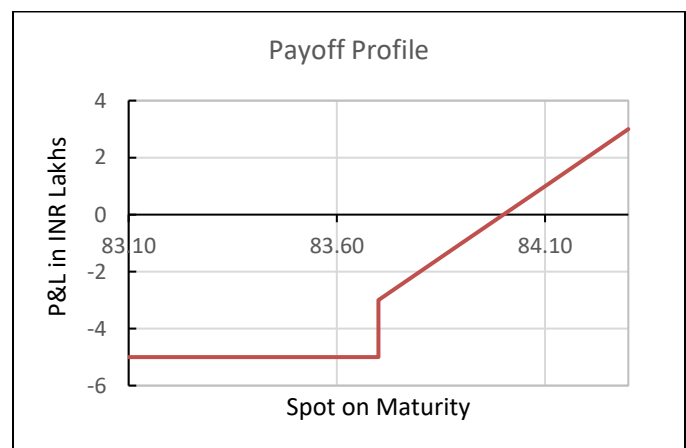
The option only knocks-in, i.e. starts to exist if spot trades at or beyond a pre-specified barrier level. If the option is not knocked in, the client may remain unhedged, and can face additional cost for re-hedging the underlying. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

Client buys a Call option on a USD/INR for 3 months with a Strike of 83.50 with an Up and In barrier at 83.70 for notional USD 1 million.

FX Option (Knock In)	Parameters
Currency Pair	USD /INR
Option Type	USD Call
View	Bullish USD
Type	Reverse Knock In / Up and In
Notional	1,000,000 USD
Tenor	3 Months
Strike	83.50
Barrier Strike	83.70
Premium	5,00,000 INR
Spot Rate	83.30
Forward Rate	83.60

Payoff



If Spot has reached or breached the Knock-In level (83.70), then if spot at expiry is

a) Above the Strike (83.50) – Client Buys USD/INR at 83.50

b) Below the Strike (83.50) – Client is free to trade at the prevailing market spot rate and option expires worthless
If spot has not reached or breached the Knock-In level (83.70) at any time throughout the life of the option, the option expires without ever having come into existence



FX Options: Knock Out

Key Features

A Knock-Out Call or Put is a modification to a vanilla Option that ceases to exist if spot trades at or beyond a pre-specified barrier level. The Option is cheaper than an equivalent Vanilla, as there is a possibility that the option will cease to exist. A Knock-Out with a barrier that is Out of Money (Barrier < Spot for Call Options and Barrier > Spot for Put Options) is called a Normal or Regular Knock Out. A Knock-Out with a barrier that is In the Money (Barrier > Spot for Call Options and Barrier < Spot for Put Options) is called a Reverse Knock Out

Potential Users

A Knock-Out Option allows a client to participate in a favourable move in the underlying exchange rate as long as a predetermined spot rate known as the “barrier level” has not been reached or breached.

Benefits

The product can be tailored to fit the client’s specific view on the underlying exchange rate

The Knock-Out Option is cheaper than an equivalent Vanilla with same parameters

Risks

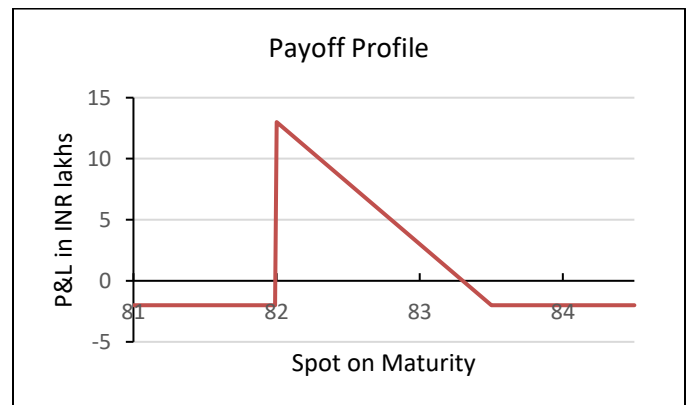
The option knocks-out, i.e. ceases to exist if spot trades at or beyond a pre-specified barrier level. In case of a Normal/Regular Knock Out the client can re-hedge at the current market rate which is beneficial. However, in case of a Reverse Knock-Out the client will face an additional cost for re-hedging the underlying as the underlying exchange rate has moved against their view. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

Client buys a Put option on a USD/INR for 3 months with a Strike of 83.50 with a Down and Out barrier at 82.00 for notional USD 1 million.

FX Option (Knock Out)	Parameters
Currency Pair	USD /INR
Option Type	USD Put
View	Bearish USD
Type	Reverse Knock Out / Down and Out
Notional	1,000,000 USD
Tenor	3 Months
Strike	83.50
Barrier Strike	82.00
Premium	2,00,000 INR
Spot Rate	83.30
Forward Rate	83.60

Payoff



If Spot has never reached or breached the Knock-Out level (82.00), then if spot at expiry is

- a) Below the Strike (83.50) – Client Sells USD/INR at 83.50
 - b) Above the Strike (83.50) – Client is free to trade at the prevailing market spot rate and option expires worthless
- If spot has reached or breached the Knock-Out level (82.00) at any time throughout the life of the option, the option ceases to exist



FX Options: Asian

Key Features

Asian options are path dependent options where the payoff depends on the average price of the underlying asset over a certain period of time as opposed to standard options (American and European) where the payoff depends on the price of the underlying asset at a specific point in time.

Potential Users

Clients who seek lower exchange rate risk over time. Suitable for clients with exposure in high volatility currency or thinly traded underlying markets.

Benefits

Asian options have relatively low volatility due to the averaging mechanism. They are used by businesses who are exposed to the underlying asset over a period of time. Asian options are less expensive than corresponding vanilla options and are therefore more attractive for some investors.

Risks

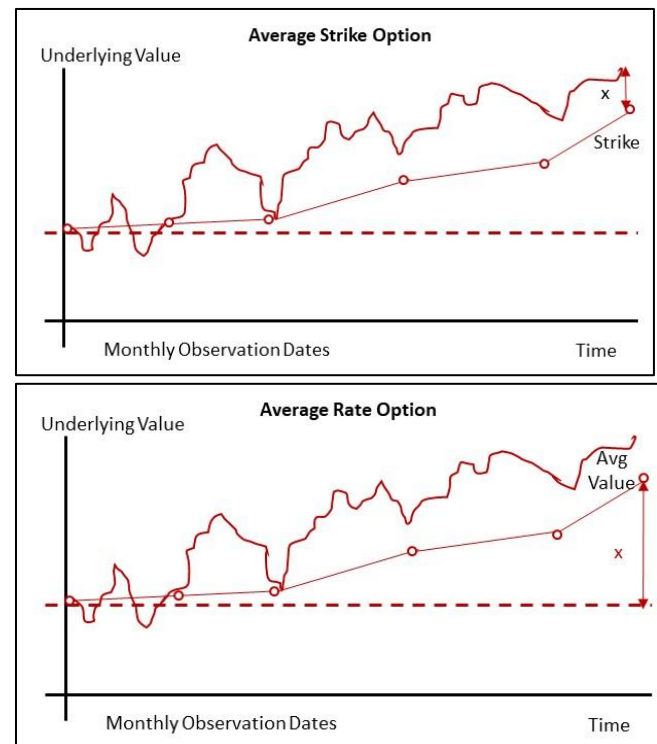
Average strike Asian option can expire OTM if the spot moves unfavorably at the final observation date. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

Investor buys a 6month tenor Asian call option on USD/INR with monthly observation dates to hedge periodic imports. The strike of the option is ATMS (83.50) and spot rates are recorded every month roll date subsequently until expiry. The Asian option is pre decided to be average rate option or average strike option. Average rate will be the average of spot rates observed every month. The payoff in case of Call will be $\text{Max}(\text{Avg rate} - \text{Strike}, 0)$. In case of average strike option payoff will be $\text{Max}(\text{Spot at Expiry} - \text{Avg Rate}, 0)$

Asian Call option (European)	Parameters
USDINR Spot	83.30
Tenor	6 months
Strike (ATMS)	83.50
Observation Dates	Monthly
Month 1	83.40
Month 2	83.30
Month 3	83.50
Month 4	83.60
Month 5	83.70
Month 6	83.80
Average Rate	83.55
Average Rate Option INR	0.30 INR/\$
Pay Off (Average Rate-Strike)	$(83.55 - 83.50) * \text{USD Notional}$
Average Strike Option INR	0.90 INR/\$
Pay Off (Spot at Expiry- Average Rate)	$(83.60 - 83.55) * \text{USD Notional}$

Payoff



IR Options: Caps / Floors / Collar

Key Features

An interest rate floor is an option that protects the buyer from losses resulting from a decrease in interest rates. It gives the buyer the right but not the obligation to receive a particular rate on expiry date for a particular reference period. Analogously, the cap is an interest rate option in which the buyer of the option receives a pay-off when the reference rate is above the strike rate on expiry. Collar is a combination of cap and floor (Buy Cap and Sell Floor)

Potential Users

These are particularly suitable for clients who wish to hedge against interest rate fluctuation on an asset (Buy Floor) or a liability (Buy Cap).

Benefits

Buyer of Cap/Floor limits his potential loss to the premium paid, but retains the right to benefit from favorable rate movements, thereby placing an upper limit on the borrowing costs and lower limit on returns on investment. These structures are customizable i.e. notional amounts, strike rates and expiry dates can be structured in a way that can provide tailor-made solutions for clients.

Risks

Option can theoretically lose all their value (i.e. the premium paid) if they expire as out-the-money or start to approach their expiry dates. In addition, there are high potential losses for writers (sellers) of option type interest rate derivatives if market movements are contrary to market expectations. Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

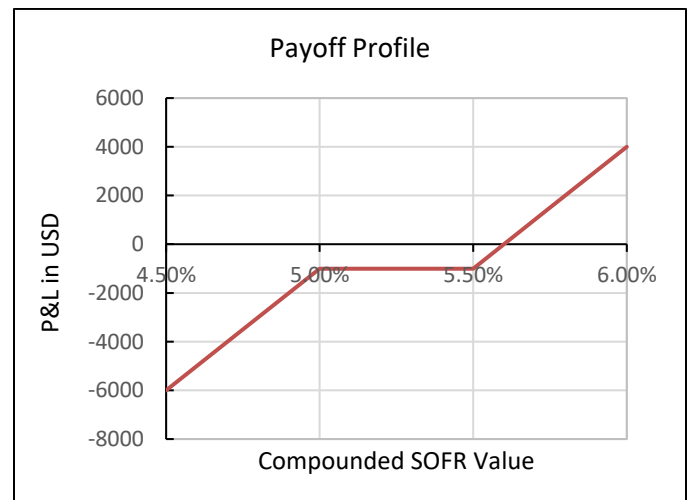
A Client has taken a 1 Year Loan in US Dollars against O/N SOFR compounded daily. The Client has entered into a US Dollar Interest Rate Collar wherein the customer buys an interest rate cap with a strike of 5.50% and sells an

interest rate floor with a strike of 5.00% on an annual basis for the next year.

Cap/Floors/Collars	Parameters
Type of Option	Collar (Buy Cap and Sell Floor)
Notional	USD 1,000,000
Underlying	O/N SOFR compounded daily
Maturity	1 year
Cap Rate	5.00%
Floor Rate	5.50%
Premium	USD 1,000

Payoff

If compounded value of O/N SOFR for the period is above 5.50%, the customer exercises the cap and pays only 5.50%. If compounded value of O/N SOFR for the period is between 5.00% and 5.50%, both the cap and the floor are out of the money and the client pays the current compounded value of O/N SOFR for the period. If compounded value of O/N SOFR for the period is below 5.00%, the client pays 5.00%.



IR Options: Capped/Floored Swap

Key Features

A capped swap is an interest rate swap with a cap where the floating rate of the swap is capped to a certain level, thus limiting the client to adverse movements in interest rates. Similarly, a floored swap is interest rate swap with a floor where the floating rate of the swap is floored at a certain level. This optionality is typically embedded into the fixed rate of the swap.

Potential Users

This structure is beneficial when Clients have an exposure to a floating rate benchmark with an underlying cap or floor level on the benchmark index (For example a Loan linked to O/N SOFR floored at 0.01%)

Benefits

Clients with a floating rate exposure can hedge against the adverse upward movement in interest rates. In addition, the borrowers can also hedge the risk associated with a cap or a floor on the floating rate benchmark of the exposure

Risks

The product is fundamentally a combination of an interest rate swap and an interest rate cap/floor. If interest rates move unfavorably for the client then he incurs an out of the money MTM position for the plain vanilla swap component of the product. If interest rates don't move adversely, the client would have paid a fixed rate higher than the market rate prevailing on trade date. Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

A Client has taken a 1 Year Loan in US Dollars USD O/N SOFR with a floor at 4.00%. The Client has entered into a

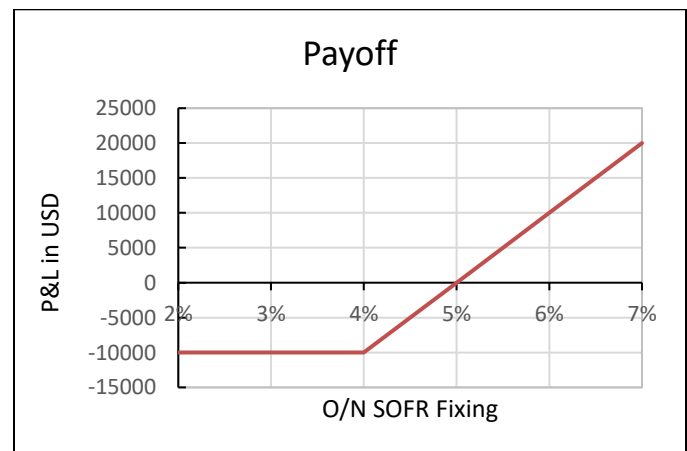
US Dollar Interest Rate Swap with a Floor wherein the customer pays a fixed interest rate of 5.00% and receives

USD O/N SOFR floored at 4.00% on an annual basis. This converts Client's floating rate exposure into a fixed rate exposure

Floored Swap	Parameters
Instrument	Floored Swap
Notional	USD 1,000,000
Tenor	1y
Fix Leg	5.00%
Floating Leg	O/N SOFR floored at 4.00%
Payment frequency	Annual
Fix leg payer	Client
Floating leg payer	Bank
Day Count	ACT/360
Upfront Premium	Nil

Payoff

For simplicity, we assume that the O/N SOFR fixing value is the same for entire annual period. If the O/N SOFR fixing is greater than 4.00%, the client pays 5.00% and receives the O/N SOFR Fixing on the floating leg. If the O/N SOFR fixing is less than 4.00%, the floor is exercised and the client pays 5.00% and receives 4.00% on the floating leg



IR Options: Swaption

Key Features

A Swaption gives the holder the right but not the obligation to Pay (Payer) or Receive (Receiver) a fixed rate against a floating rate benchmark for a particular period (Underlying Swap) at a known fixed rate (Strike) at a given date in the future (expiry) for a set fee (premium). Swaptions can be European (Exercise only on expiry date), Bermudan (As per a schedule) or American (Any time till expiry)

Potential Users

Clients with a floating or fixed rate asset or liability can use Swaptions to hedge their exposure.

Benefits

Swaptions allow clients to participate in a favorable move in the underlying interest rate swap. The holder/buyer of the option has unlimited participation on the upside with limited exposure on the downside.

Risks

If Client buys the Swaption, they run the risk of losing the premium paid in case the option expires out of the money. In case where client sells the Swaption, client is exposed to unlimited downside if the Swaption expires in the money. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

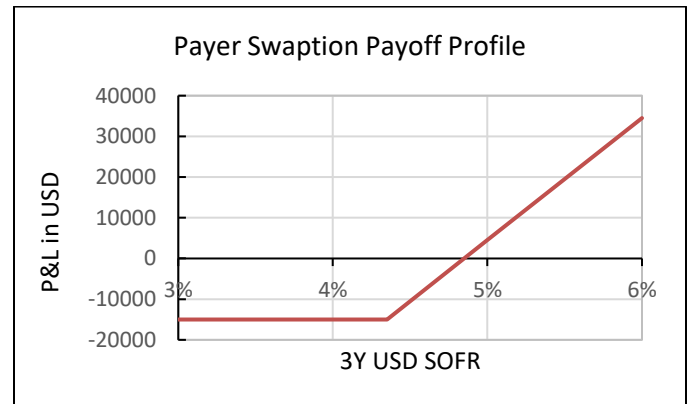
Illustration

A Client has taken a 5 Year Loan in US Dollars against O/N SOFR compounded daily. The client expects the US O/N SOFR to start rising from the third year and wishes to hedge the risk. The Client enters into a 2 Year x 3 Year Payer Swaption to hedge his floating interest rate risk

Payoff

Swaption	Parameters
Notional	USD 1,000,000
Loan Tenor	5 Years
Swaption Expiry Date	2 Years
Type of Swap	Fixed vs USD O/N SOFR
Strike Rate	4.35%
Option Type	Buy Right to Pay
Optionality	European
Floating benchmark	USD O/N SOFR
Fixed Leg Underlying	4.35%
Floating Rate Underlying	3Y USD SOFR
Start Date Underlying	2 Years
End Date Underlying	3 Years from Start
Premium	USD 15,000

At expiry, if the 3 Year USD SOFR Rate is above 4.35%, the client will exercise the Swaption and enter into a pay side swap with a fixed rate of 4.35%. If the 3 Year USD SOFR rate is below 4.35%, the Swaption expires and is not exercised by the client.



FX Options: Digital

Key Features

A digital option is an option contract where the buyer receives a fixed payoff if the underlying asset is at, or goes above (below) a pre-determined strike.

Below are some variants of a Digital options where the payoff is received if

1. Digital Call: The underlying asset is above the pre-determined strike at maturity.
2. Digital Put: The underlying asset is below the pre-determined strike at maturity.

Potential Users

A Digital Option allows a client in hedging the risk of foreign currency payable/receivable.

Benefits

The product can be tailored to fit the client's specific view on the underlying exchange rate. If the option condition is met, the contract holder will get a fixed payoff. In addition, the downside for the buyer of the option is limited to the premium paid.

Risks

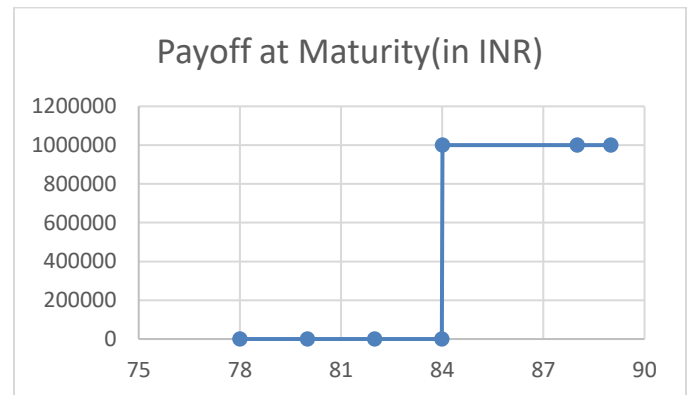
The premium is payable for buying a digital option irrespective of the scenario at expiry. If the condition is not met, then the contract holder does not receive a fixed payoff. In case where client sells the option, client is exposed to downside equal to the payoff on the option. Early termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

Client buys a Digital Call option where the payoff decided at the time of entering into the contract if the spot at expiry is more than the pre decided strike.

FX Option	Parameters
Currency Pair	USD /INR
Option Type	Digital Call
Type	European
Payoff	1,000,000 INR
Tenor	3 Months
Strike	84.00
Premium	300,000 INR
Spot Rate	82.60

Payoff



If the Spot at expiry is below 84, the payoff in the option is 0. However, if Spot at maturity is more than 84 the client will receive a fixed payoff of INR 1,000,000 on maturity of the option.



FX Options: Touch Options

Key Features

A One Touch option is an option contract where the buyer receives a fixed payoff if the underlying asset is at, or goes above (below) a predetermined strike.

Below are some of the variants of the American digital options where the payoff is received if:

1. One Touch: The asset price is at or goes above(below) the strike
2. Double One Touch: The asset price is at, or goes beyond either of the strikes.
3. No Touch: The asset price is not at, or does not goes beyond the strike
4. Double No Touch: The asset price is not at, or does not goes beyond either of the strike

Potential Users

A Touch Option allows a client in hedging the risk of foreign currency payable/receivable.

Benefits

The product can be tailored to fit the client's specific view on the underlying exchange rate. If the option condition is met, the contract holder will get a fixed payoff. In addition, the downside for the buyer of the option is limited to the premium paid.

Risks

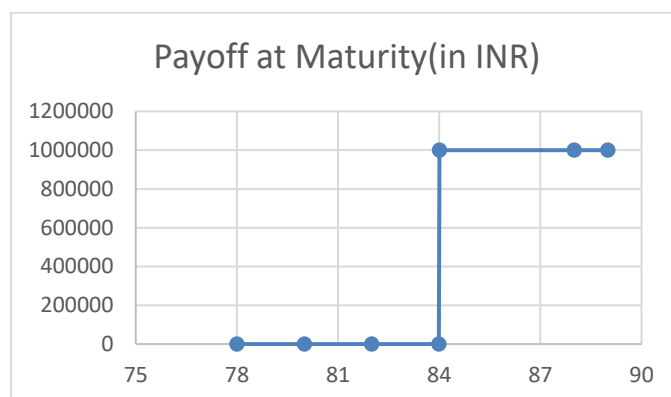
The premium is payable for buying a touch option irrespective of the payoff at expiry. If the condition is not met, then the contract holder does not receive a fixed payoff. In case where client sells the option, client is exposed to downside equal to the payoff on the option. Early termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

Illustration

Client buys a Touch Up & In option where the payoff decided at the time of entering into the contract if the spot is more than the pre decided barrier level at any time during the observation period.

FX Option	Parameters
Currency Pair	USD /INR
Option Type	One Touch
Type	American
Payoff at Expiry	1,000,000 INR
Tenor	3 Months
Barrier	84.00
Barrier Type	Up & In
Premium	600,000 INR
Spot Rate	82.60

Payoff



If the Spot remains below 84, the payoff in the option is 0. However, if Spot is more than 84 at any time during the observation period the client will receive a fixed payoff of INR 1,000,000 on maturity of the option.



Bond Forward Rate Agreement

Key Features

A Bond FRA is an OTC product which allows the user to lock-in a future bond purchase price and forward yield of an underlying bond of the desired maturity. The buyer is contractually obligated to buy the underlying bond at a fixed pre-agreed forward price on the specified date. This is a net/gross-settled transaction with zero upfront payment.

Potential Users

This product is useful for the Clients who want to hedge their interest rate duration mismatch risk arising from a portfolio of long-dated liabilities and short-dated assets.

Benefits

By entering into this Forward Rate Agreement, the client can hedge the interest rate risk arising due to one of the following transactions: (i) Reinvestment of maturity proceeds of existing fixed income investments, (ii) Expected cash-flows from any other sources.

Risks

The client is exposed to the price movement in the underlying bond. There are several other risks in this transaction including but not limited to Credit Risk, Liquidity Risk and Fixing Risk. Early Termination of the contract can lead to additional costs as per prevailing market conditions and losses (if any) have to be borne by the client.

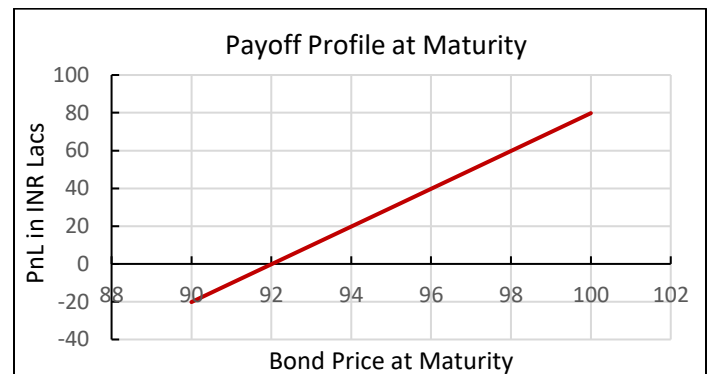
Illustration

A Client has a liability to pay a fixed sum of money 10 years from now and has assets receivable 5 years from now. He wants to hedge this exposure by purchasing a fixed income bond 5yrs from now. By purchasing the bond at a forward date client has locked in the yield and has protected himself from the downside movement of interest rates.

At the maturity of the contract, client will have to pay agreed forward price set at the time of entering into the transaction.

FX Forward	Parameter
Sample Bond Details	7.50%, Semi-Annual, GOI Bond, 10.08.2034
ISIN	IN0020040039
Notional	100,000,000 INR
Client Side	Buy Bond Forward
Forward Date	10.08.2029
Current Bond Price	94.78
Forward Rate	92.02

Payoff



On Maturity, client buys Bond at the Forward Rate of 92.02. If the Bond price at maturity is higher than the agreed forward rate, the client has realized a profit as he has purchased the bond at a better rate than the current market. If the Bond price on maturity is lower than the agreed forward rate, the client has realized a loss as he has purchased the bond at a higher rate than the prevailing price of the bond.

