



# Product & Risk Disclosure

January 2022

# Bond Forward Rate Agreement ("Bond FRA")



## Product Features

- A bond forward rate agreement (Bond FRA) locks in a price for the purchase or sale of a bond on a future date
- The forward price is calculated based on the spot yield of the bond and OIS rate for the tenor of the forward
- The forward premium is included in the forward price

## Advantages

- The Bond FRA is highly customizable and can be executed for any tenor on any underlying bond, so long as forward tenor < bond residual maturity
- Ability to unwind transaction at any time
- If the client buys a bond FRA, they get full protection against an increase in bond price, however the client does not get any participation in the downside. If a client sells a bond FRA, the opposite applies.

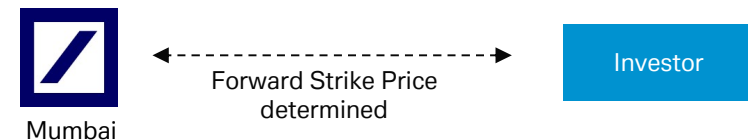
## Building Blocks and Primary Risks

- Price of the underlying bond
- INR OIS rate for the tenor of the forward

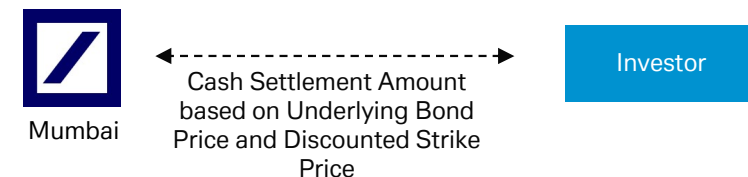
## Flow Illustration: Bond FRA

### On Trade Date

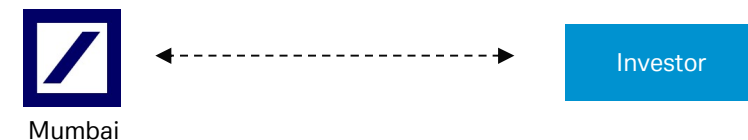
- Client enters a forward contract to purchase the underlying bond at a pre-agreed forward price (Strike Price) at a future date



### Optional Early Termination (unwind)



### Settlement at FRA maturity



- Settlement Amount : On the settlement date, if Underlying Bond Price > Strike Price, DB pays  $(\text{Underlying Bond Price} - \text{Strike Price}) \times \text{Notional} / 100$ . Else, client pays  $(\text{Strike Price} - \text{Underlying Bond Price}) \times \text{Notional} / 100$

# Bond Forward Rate Agreement ("Bond FRA")



## Scenario Analysis

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The MTM of the product is determined by (1) market price of the underlying bond; and (2) INR OIS curve for the tenor of this Transaction.

The net cashflow will depend on the assumption of Reference Bond price on the Settlement Date of the Bond FRA and the forward purchase price. In MTM sensitivity analysis below we demonstrate the change in MTM for a uniform and equal change in price for all underlying Reference Bonds

Change In Price of Underlying Bond(INR)	Change In MTM(INR)
90	-100,000,000
95	-50,000,000
100	0
105	50,000,000
110	100,000,000

As demonstrated in the scenario analysis above, the value of the Transaction at any time before Termination is dependent on the price of the underlying Reference Bond. Client's mark-to-market (MTM) is positive if the discounted Forward Purchase Price is lower than the Reference Bond Price and negative if otherwise

In addition, as mentioned in the "Building Blocks" the client is exposed to MTM changes due to changes in the INR OIS rate for the tenor of the forward. For example, for a bond FRA trade of notional INR 100 crores and tenor 5y, the Gain/Loss in INR for Client for 1bps parallel shift in INR OIS curve is approximately INR 436,800.

## Contract terms and conditions – Unwind Cost

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An amount equal to Deutsche Bank's total costs or loss (which shall be a positive number) or gain (which shall be a negative number) in connection with terminating all payments and contingent payments that would otherwise have been made under this transaction in the period from but excluding the relevant Optional Termination Date up to and including the originally scheduled Termination date.

Deutsche Bank's total costs or loss shall include, without limitation, any loss of bargain, cost of funding, or loss or cost incurred as a result of Deutsche Bank terminating, liquidating, obtaining or re-establishing any hedge or related position.

DB shall provide the Mark to Market value of the trade as and when desired by Client

Client has the option to unwind this trade as specified in the relevant confirmation and subject to unwind costs.

## Costs and Fees

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Transactions of this nature are executed at an all-inclusive price and there would not be any separate breakup and recovery of costs, fees and other charges. Breakup will however be provided as per the extant RBI guidelines. This doesn't include statutory charges/levies and same will be recovered separately as applicable.

# Bond FRA-Generic Risks



## Market Risk

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Market Risk is the risk that the value of a Transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the Transaction or in a related market. In particular leveraged Transactions will entail a higher degree of risk as the losses arising from a small market movement will be multiplied and you may be required to provide substantial margin at short notice to meet your obligations. Failure to meet such obligations may result in us having to liquidate your position at a loss for which you would be liable. You should also note that while we will seek to observe "stop loss" and "stop limit" orders, market conditions may prevent us from executing any "stop loss" or "stop limit" orders which may have been previously agreed.

## Credit Risk

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Credit Risk is the risk that we may, under certain circumstances, fail to perform our obligations to you when due.

## Funding Risk

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Funding Risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to you under Transactions or related hedging, trading, collateral or other transactions, you will not have adequate cash available to fund current obligations.

## Liquidity Risk

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Liquidity Risk is the risk that due to prevailing market conditions it may not be possible to liquidate, nor to assess a fair value of your position. In addition, you should be aware that the operation of exchange rules or any power or system failure affecting electronic trading facilities may, in certain circumstances, impair or prevent us from liquidating or executing your Transactions, thus increasing the likelihood of loss..

## Operational Risk

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Operational Risk is the risk of loss to you arising from inadequacies in, or failures of, your internal procedures and controls for monitoring and quantifying the risks and contractual obligations associated with Transactions.

## Currency Risk

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Currency Risk The profit or loss from Transactions in foreign currencies will be affected by fluctuations in currency exchange rates where there is a need to convert from the currency denomination of the Transaction to another currency.

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