Silicon Valley Bank

Foreign exchange product guide

FX Options: Participating Forward

Participating Forward

SVB UK only offers this product to clients classified as 'Professional' under MiFID regulation.

This option strategy gives the buyer the certainty of a protected rate, with the opportunity to participate in favourable market moves for a pre-determined proportion of the total notional amount, on or up to a pre-agreed expiry date. Settlement of the trade will occur within two working days after the expiry date.

Product variables

- Notional amount
- Strike rate
- Participating amount
- Spot rate
- Currency pair
- Expiry date
- Settlement date
- Pre-approved FX credit line

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The benefits

Protection against adverse movements at a predetermined rate, adding clarity on future cashflows

Tailored to specific objectives, giving flexibility to decide the notional amount, participating amount, currencies and the settlement date

The right to participate in more favourable exchange rates for a pre-agreed proportion of the notional amount, giving the opportunity to improve the average rate

Can be structured at zero cost

Key risks

Should the contract no longer be required, the cost of unwind will be determined by the prevailing market rate at the time and will be payable by the client

The mark to market value of the contract will become positive or negative throughout the duration of the contract in line with market fluctuations

An application of a Participating Forward

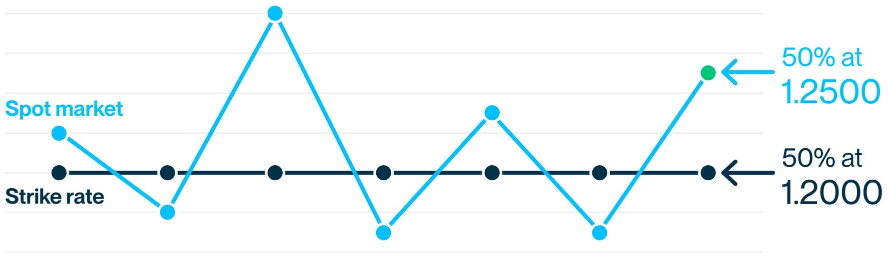
(hypothetical example)

UK-based company Acme Ltd needs to make a purchase of USD 500,000 in 6 months. They would like to have protection against adverse market movements, but the ability to participate in favourable movement should this occur. They do not want to pay an upfront premium.

Acme Ltd executes a Participating Forward to buy USD 500,000 with an expiry date in 6 months and with a strike rate of 1.2000. They choose a participation amount of 50% (USD 250,000) should they be able to benefit from favourable market moves.

At expiry there are two possible outcomes:

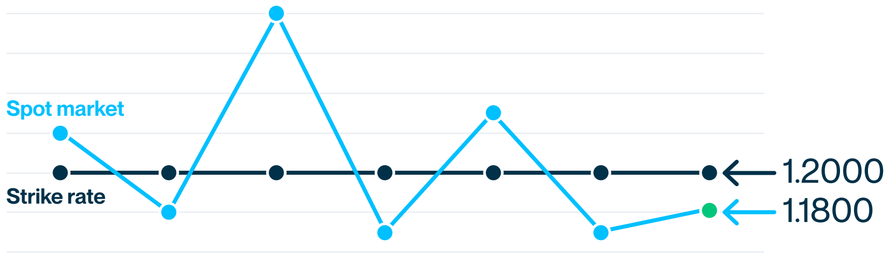
Outcome 1



GBP/USD is trading at 1.2500. Acme Ltd is able to **purchase 50%** (USD 250,000) at the prevailing market rate but is **obligated to buy** the remaining 50% at the **pre-agreed strike rate** of 1.2000.

Acme Ltd could therefore achieve an average rate of 1.2250, having benefited from favourable market moves for 50% of the total notional amount.

Outcome 2



GBP/USD is trading at 1.1800. Acme Ltd exercise their right to buy USD at the **pre-agreed low strike rate** of 1.2000, which is advantageous compared to the prevailing market rate.

Contact your FX Trading Specialist to learn more or email us at **EMEAFXTraders@svb.com**

Glossary

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Tenor – The length of time between execution and the expiry date.

Notional amount – The volume of the transaction (how much currency is being bought or sold).

Participating amount – The pre-determined proportion of the notional in which participation in favourable market moves is permitted as per the contract.

Credit line – An FX line allowing the company the right to buy or sell currency for a date in the future without immediate settlement of the full amount. An FX line will be tailored to the specific requirement of the business and will be approved on a collateralised or uncollateralised basis dependent on financial analysis. Clients may be subject to pay variation margin should the mark to market valuation be outside of the agreed risk parameters.

Mark to market – Measuring the fair value of the contract based on the current market price.

Strike rate – The specific price at which the holder of the option can exercise the option to buy or sell a currency.

Expiry date – The date in which an options contract expires and the rights of the option may be exercised. An option can be structured as an American option (allows the holder to exercise the option anytime up to and including the expiry date) or a European option (allows the holder to exercise the option only on the expiration date).

Settlement date – The date on which the contract is settled, i.e. when the currency amount is delivered. Settlement of an option contract usually occurs 2 working days after the expiry date.

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