Silicon Valley Bank

Foreign exchange product guide

# Non-Deliverable Forward/Swap Contract (NDF/NDS)

# NDF / NDS

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

An agreement that allows you to lock in a rate of exchange for a pre-agreed period of time, similar to a Forward or the far leg of a Swap Contract.

The rate is calculated using the spot rate and a forward point adjustment for the tenor of the contract.

On the settlement date, the currency will not be delivered and instead, the difference between the NDF/NDS rate and the fixing rate is cash settled. The fixing rate is determined by the exchange rate displayed on an agreed rate source, on the fixing date, at an agreed time.

NDF/NDSs are primarily used to hedge non-convertible currencies or currencies with trading restrictions.

## Product variables

- Notional amount
- Currency air
- Settlement date
- Spot rate
- Forward point adjustment
- Pre-agreed FX credit line
- NDF/NDS fixing rate
- Fixing date and time

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## The benefits

An opportunity to mitigate FX risk with non-deliverable currencies

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

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

## Key risks

Unable to participate in favourable market movement with respect to the contract

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 Non-Deliverable Forward Contract

(hypothetical example)

UK-based company Acme Ltd is expanding into South America and needs to make a purchase of 2,000,000 Brazilian Real in 6 months. Acme Ltd would like to have protection against adverse movement and secure an exchange rate, however, BRL is a non-convertible currency.

## To manage this, Acme Ltd executes a Non-Deliverable Forward (NDF) Contract:

Acme Ltd sell GBP and buy BRL 2,000,000 at an agreed NDF rate of 6.0000

with a settlement date of 6 months.

On the settlement date, the fixing rate is checked against the agreed NDF rate of 6.0000.

The difference between the NDF rate and the live fixing rate will be cash settled

which could mean Acme Ltd either **receiving** the difference in the rates (applied to the notional amount) from SVB UK or **paying** SVB UK that difference.

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

# Glossary

**Non-convertible currencies** – A currency that is not freely traded within the foreign exchange market, usually because of government restrictions.

**Fixing rate** – The exchange rate given by an agreed rate source at the agreed time on the fixing date.

**Forward point adjustment** – Forward points represent the difference in price or the time value adjustment between the spot rate at execution and the rate at the settlement date. Forward Points are added to or subtracted from the spot rate to determine the forward rate of a particular settlement date, and are typically depicted in pips (percentage in points). This adjustment is determined by interest rate differentials and other transaction costs.

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

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

**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.

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