

JCRA

Financial Risk Consultants

Interest Rate Management

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J.C. Rathbone Associates Limited
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Interest Rate Management

JC Rathbone Associates Ltd (JCRA) is an independent financial risk management consultancy.

We aim to save money for our clients by controlling their interest rate costs.

We advise upon the selection of suitable interest rate hedging strategies tailored to the unique circumstances of each client or project.

We ensure that our clients achieve fair pricing for the implementation of these hedging strategies in a market that is not readily transparent.

Our clients are predominantly asset rich but dependent on borrowed money to finance such assets. Clients will include, Property Companies and Funds, Leisure Groups, Private Equity Portfolio Companies, Universities, Housing Associations and Public Bodies.

Our clients are located in the UK, Europe, the Middle East and North America and the currency interest rates to which they are exposed are as diverse as the locations into which they invest.

Interest Rate Hedging

The Service

In the main, we advise borrowers who are exposed to rising interest rates on their variable rate debt whether linked to clearing bank base rate or Libor and its variants such as Euribor or its local equivalent.

Interest rate protection is provided in the form of derivative instruments such as Interest Rate Swaps or Options including Caps, Floors, Collars or Swaptions. In some cases we will combine two or more instruments to produce the desired effect.

It is important to note that we are not principals and therefore we are not the providers of the hedge. The hedge transactions must be provided by the lending bank or alternatively another relationship bank with whom our client has credit lines and has undergone the necessary money laundering and regulatory documentation.

We will not trade transactions for our clients in the capacity of a principal or an agent. Rather, we will arrange or bring about the transaction for our clients to complete under advice from us.

Hedge transactions are structured to meet the specific requirements of the project. We provide transparency to the pricing of the specified transactions which, without the benefit of sophisticated pricing software and real time market data, our clients cannot do for themselves.

Advice

This will start with an understanding of each client's philosophy towards risk and then an understanding of the precise characteristics of the project in hand.

We will recommend a hedging strategy in the context of the overall philosophy, our client's view, the parameters dictated by the project and the minimum requirements stipulated by the bank lenders.

We will report to our client with such explanations as may be necessary with a view to agreeing a preferred hedging strategy.

Pre-Execution

Thorough preparation is vital in the lead time to execution.

Once the hedge strategy has been agreed with our client we will organise the execution of the strategy, providing the bank(s) with precise term sheets so that there is no misunderstanding as to the required transactions.

Where more than one bank can quote for the hedge transactions we will organise an auction process according to the terms of a Hedge Letter or Agreement.

We will provide a commercial review of the hedge documentation prior to execution. This documentation is usually in the form of a Schedule to the Master ISDA Agreement. Some countries may have developed a domestic version and





indeed on some occasions banks may wish to use their own documentation. These documents are more important than they are given credit for and we will strive to ensure that our clients are not disadvantaged by them.

Whether the hedge transactions are to be undertaken by a single bank, a group of banks or by auction, we will conduct rehearsals prior to the completion date. This not only ensures that misunderstandings can be identified and corrected at an early stage but potential overcharging identified and prevented.

Execution

Execution usually involves a three- way call between our client, the bank and JCRA during which we will advise our client whether or not the pricing provided by the bank(s) is acceptable. Given adequate preparation this should be the case but it is not always a smooth process.

Execution may entail a termination of an existing hedge position. We will negotiate with the bank(s) to ensure that breakage costs are not overstated and that break gains are fully accounted for.

Post Execution

There are strict protocols with regard to the provision of trade confirmations. These are legally binding contracts and should be thoroughly checked. We will do this for our clients.

Circumstances and markets change and so we maintain an ongoing dialogue with our clients so that changing circumstances may be taken into account and advantage taken of favourable market movements.

Benchmarking

Benchmarking includes the following:

- Checking the fair market price of the proposed transaction.
- Managing the execution process
- Managing the exposure to market risk.

This service can vary from that of a simple price checking process on a vanilla transaction to a more involved and advisory process on a long term structured transaction.

Public Finance Initiative and Public Private Partnership transactions, in particular, are long term in nature as well as being large in size and may involve multi-bank syndicates.

These transactions require a high degree of management and advice to ensure that a fair and transparent process is achieved.

The net present value of a few basis points on a long dated derivative instrument transaction can represent a very material saving and have a beneficial effect on the unitary price ultimately borne by the Public Sector.

We often deliver considerable savings by negotiating the pricing and managing the execution process of a wide range of derivative transactions.

Valuation

Valuation represents the pricing of existing transactions which our clients cannot do for themselves without the benefit of sophisticated pricing models.

This is done for the following purposes:

- The preparation of statutory accounts under IFRS.
- Corporate governance.
- Due diligence in mergers and acquisitions.
- Forensic investigation.

We assist our clients with the preparation of hedge accounting documentation and the subsequent hedge effectiveness testing as required under IAS 39, FRS 26 and FAS 133.

Why JCRA?

- We are independent, providing independent advice in the best interests of our clients.
- Our advice is bespoke, taking into account the unique circumstances of each client.
- We understand that hedging is complementary to our clients' business and not their primary business.
- We ensure that the hedging structures entered into by our clients are transparent as to construction, pricing and effect.
- We have the skills and systems to evaluate and unravel highly structured and complex derivative instruments.
- We ensure that our clients achieve fair pricing from their bank counterparties.



It makes sense to be prepared www.jcra.co.uk

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