Product and Risk Disclosure Document

Target Accrual Redemption Forward

EBURY PARTNERS LIMITED
REGISTERED NUMBER: 07086058

What borders?

The TARF

Product Description

A Target Accrual Redemption Forward (TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date.

The client selects the number and frequency of Fixing Dates and the Target Amount. The client's benefit of transacting at the Enhanced Rate is limited to the Target Amount, which is its maximum gain from the TARF.

The Target Amount is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate to determine the outcome.

If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate for that Fixing.

If the Enhanced Rate is more favourable than the Fixing Rate by an amount less than the Target Amount balance, the client will transact the Notional Amount at the Enhanced Rate, and the Target Amount will be reduced by the difference between the Fixing Rate and Enhanced Rate.

If the Enhanced Rate is more favourable than the Fixing Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Target Amount (profit target);
- the Final Fixing Type.

There are three Final Fixing scenarios which can be chosen when purchasing the TARF:

1. **Guaranteed Final Fixing:** The full Notional Amount is transacted at the Enhanced Rate.
2. **Adjusted Notional:** The amount transacted at the Enhanced Rate is calculated by dividing the remaining Target Amount by the difference between the Enhanced Rate and the Fixing Rate, and then multiplying by the Notional Amount.
3. **Adjusted Rate:** The Enhanced Rate is adjusted so it is more favourable than the Fixing Rate by the remaining Target Amount. The full Notional Amount is then transacted at the adjusted rate.

Possible Scenarios:

At each Fixing Date, the Enhanced Rate is compared to the Fixing Rate:

Scenario 1: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Amount balance is greater than the difference between the Enhanced Rate and the Fixing Rate, the client will to transact the Notional Amount at the Enhanced Rate. The Target Amount will be reduced by the difference between the Enhanced Rate and the Fixing Rate.

This process will repeat at each Fixing Date until the Target Amount is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate, and the Target Amount balance is unaffected.

Scenario 3: If the Enhanced Rate is more favourable than the Fixing Rate by an amount greater or equal to the Target Amount balance, the client will to transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until all the Target Amount is fully redeemed.
- The maximum profit, or gain versus the spot rate, is known from the outset.
- Once the Target Amount is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Amount is fully utilised, the TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favorable market rate.
- If the market rate (Fixing Rate) is more favorable than the Enhanced Rate on any Fixing Date, the client will be obligated to transact the Notional Amount at the less favorable Enhanced Rate.
- TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.

Example

A UK importer operates a diversified currency hedging strategy and needs to buy USD 1,000,000 per month, for a total of USD 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2500 and the equivalent Forward Rate is 1.2470.

The importer has a budget rate of 1.3000 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full USD 12,000,000 at 1.3000 or they may be obligated to transact the full USD 12,000,000 at 1.3000 should GBPUSD appreciate.

The importer enters into an TARF with the following terms:

- ✓ Enhanced Rate of 1.3000 per Fixing Date and a Target Amount of 0.2000.
- ✓ 12x monthly Fixing Dates with a Notional Amount of USD 1,000,000 per Fixing Date.

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2450.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is reduced by 0.0550 (550 points) to 0.1450.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2350.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is reduced by 0.0650 (650 points) to 0.0800.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2850.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is reduced by 0.0150 (150 points) to 0.0650.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3230.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is unchanged and remains at 0.0650.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3370.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is unchanged and remains at 0.0650.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3440.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is unchanged and remains at 0.0650.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.3125.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Amount is unchanged and remains at 0.0650.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.2000,** meaning the difference between the Enhanced Rate of 1.3000 and the Fixing Rate of 1.2000 (=0.1000) exceeds the remaining Target Amount (=0.0650), therefore the TARF will terminate after this Fixing Date.

The outcome of the final Fixing for the client depends upon the Final Fixing Type. Here are the three possible outcomes:

- **Guaranteed Final Fixing:** The importer sells GBP to buy USD 1,000,000 at 1.3000.
- **Adjusted Notional:** The importer sells GBP to buy USD 650,000 (=1,000,000 x (0.0650/0.1000)) at 1.3000
- **Adjusted Rate:** The importer sells GBP to buy USD 1,000,000 at 1.2650 (1.2000 + 0.0650).

The Leveraged TARF

Product Description

A Leveraged Target Accrual Redemption Forward (TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date.

The client selects the number and frequency of Fixing Dates and the Target Amount. The client's benefit of transacting at the Enhanced Rate is limited to the Target Amount, which is its maximum gain from the TARF.

The Target Amount is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate to determine the outcome.

If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate for that Fixing.

If the Enhanced Rate is more favourable than the Fixing Rate by an amount less than the Target Amount balance, the client will transact the Notional Amount at the Enhanced Rate, and the Target Amount will be reduced by the difference between the Fixing Rate and Enhanced Rate.

If the Enhanced Rate is more favourable than the Fixing Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the Leveraged TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Ratio (Leverage) (per Fixing Date);
- the Leveraged Notional Amount (per Fixing Date);
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Target Amount (profit target);
- the Final Fixing Type.

There are three Final Fixing scenarios which can be chosen when purchasing the Leveraged TARF:

1. **Guaranteed Final Fixing:** The full Notional Amount is transacted at the Enhanced Rate.
2. **Adjusted Notional:** The amount transacted at the Enhanced Rate is calculated by dividing the remaining Target Amount by the difference between the Enhanced Rate and the Fixing Rate, and then multiplying by the Notional Amount.
3. **Adjusted Rate:** The Enhanced Rate is adjusted so it is more favourable than the Fixing Rate by the remaining Target Amount. The full Notional Amount is then transacted at the adjusted rate

Possible Scenarios:

At each Fixing Date, the Enhanced Rate is compared to the Fixing Rate:

Scenario 1: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Amount balance is greater than the difference between the Enhanced Rate and the Fixing Rate, the client will transact the Notional Amount at the Enhanced Rate. The Target Amount will be reduced by the difference between the Enhanced Rate and the Fixing Rate.

This process will repeat at each Fixing Date until the Target Amount is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate, and the Target Amount balance is unaffected.

Scenario 3: If the Enhanced Rate is more favourable than the Fixing Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the Leveraged TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until all the Target Amount is fully redeemed.
- The maximum profit, or gain versus the spot rate, is known from the outset.
- Once the Target Amount is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Amount is fully utilised, the Leveraged TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favorable market rate.
- If the market rate (Fixing Rate) is more favorable than the Enhanced Rate on any Fixing Date, the client will be obligated to transact the Leveraged Notional Amount at the less favorable Enhanced Rate.
- Leveraged TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a Leveraged TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.
- Leveraged TARFs exhibit a less favourable mark-to-market profile than the (non-leveraged) TARF, meaning that there is an increased risk of significant losses and/or margin calls.

Example

A UK exporter operates a diversified currency hedging strategy and needs to buy GBP 1,00,000 per month, for a total of GBP 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2800 and the equivalent Forward Rate is 1.2770.

The exporter has a budget rate of 1.2000 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full GBP 12,000,000 at 1.2000 or they may be obligated to transact the full GBP 12,000,000 at 1.2000 should GBPUSD depreciate.

The exporter enters into an Leveraged TARF with the following terms:

- ✓ Enhanced Rate of 1.2000 per Fixing Date and a Target Amount of 0.2500
- ✓ 12x monthly Fixing Dates with a Notional Amount of GBP 500,000 per Fixing Date
- ✓ A Ratio of 1:2, meaning the Leveraged Notional Amount is GBP 1,000,000 per Fixing Date

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2850.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Amount is reduced by 0.0850 (850 points) to 0.1650.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2750.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Amount is reduced by 0.0750 (750 points) to 0.0900.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2250.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Amount is reduced by 0.0250 (250 points) to 0.0650.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1950.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Amount is unchanged and remains at 0.0650.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1870.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Amount is unchanged and remains at 0.0650.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1650.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Amount is unchanged and remains at 0.0650.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.1825.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Amount is unchanged and remains at 0.0650.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3000,** meaning the difference between the Enhanced Rate of 1.2000 and the Fixing Rate of 1.3000 (=0.1000) exceeds the remaining Target Amount (=0.0650), therefore the TARF will terminate after this Fixing Date.

The outcome of the final Fixing for the client depends upon the Final Fixing Type. Here are the three possible outcomes:

- **Guaranteed Final Fixing:** The exporter sells USD to buy GBP 500,000 at 1.2000.
- **Adjusted Notional:** The exporter sells USD to buy GBP 325,000 (=500,000 x (0.0650/0.1000)) at 1.3000
- **Adjusted Rate:** The exporter sells GBP to buy USD 500,000 at 1.2350 (1.3000 - 0.0650).

The Count TARF

Product Description

A Count Target Accrual Redemption Forward (TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date.

The client selects the number and frequency of Fixing Dates and the Target Count of In The Money Fixings. The client's benefit of transacting at the Enhanced Rate is limited to the number of Target Counts it selects.

The Target Count is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate to determine the outcome.

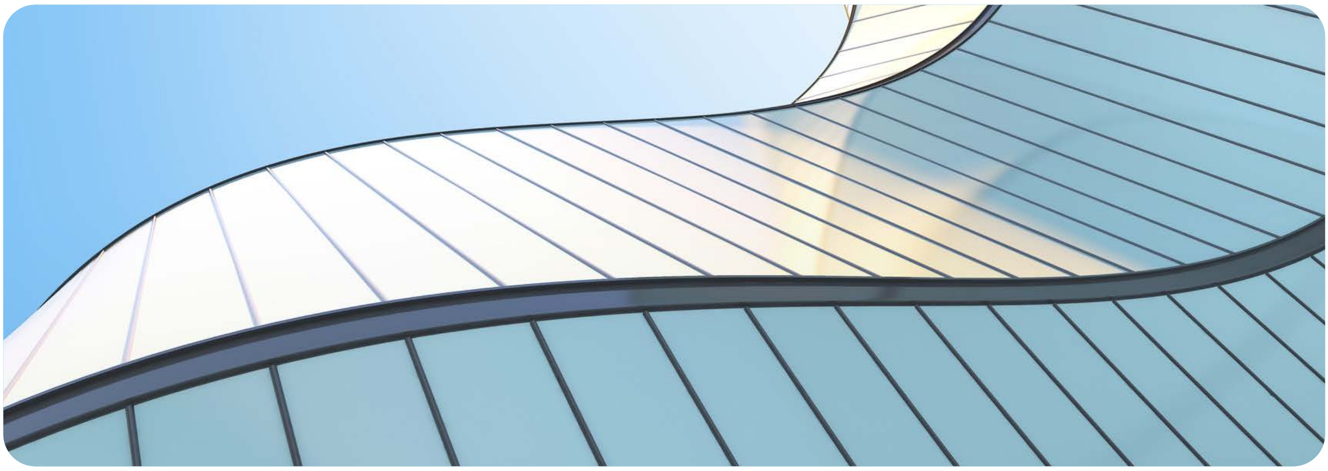
If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate for that Fixing.

If the Enhanced Rate is more favourable than the Fixing Rate, the client will transact the Notional Amount at the Enhanced Rate, and the Target Count will be reduced by one.

If the Target Count reduces to zero, at this point, the Count TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Target Count.



Possible Scenarios:

At each Fixing Date, the Enhanced Rate is compared to the Fixing Rate:

Scenario 1: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Count is greater than zero, the client will transact the Notional Amount at the Enhanced Rate. The Target Count will be reduced by one.

This process will repeat at each Fixing Date until the Target Count is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate, and the Target Count is unaffected.

Scenario 3: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Count reduces to zero, the client will transact the Notional Amount at the Enhanced Rate. At this point, the Count TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until the Target Count of In The Money Fixings is fully redeemed.
- The maximum profit, or gain versus the spot rate, is not fixed at a set Target Amount number of points like with other TARF variants.
- Once the Target Count is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Count is fully utilised, the Count TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favourable market rate.
- If the market rate (Fixing Rate) is more favourable than the Enhanced Rate on any Fixing Date, the client will be obligated to transact the Notional Amount at the less favourable Enhanced Rate.
- Count TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a Count TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.

Example

A UK importer operates a diversified currency hedging strategy and needs to buy USD 1,000,000 per month, for a total of USD 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2500 and the equivalent Forward Rate is 1.2470.

The importer has a budget rate of 1.3000 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full USD 12,000,000 at 1.3000 or they may be obligated to transact the full USD 12,000,000 at 1.3000 should GBPUSD appreciate.

The importer enters into a Count TARF with the following terms:

- ✓ Enhanced Rate of 1.3000 per Fixing Date and a Target Count of 5 In The Money Fixings
- ✓ 12x monthly Fixing Dates with a Notional Amount of USD 1,000,000 per Fixing Date

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2450.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is reduced by 1 to 4.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2350.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is reduced by 1 to 3.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2850.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is reduced by 1 to 2.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3230.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is unchanged and remains at 2.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3370.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is unchanged and remains at 2.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3440.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is unchanged and remains at 2.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.2985.** The importer sells GBP and buys USD 1,000,000 at 1.3000. The Target Count is reduced by 1 to 1.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.2820,** meaning this will be the importer's final Fixing Date as the Target Count will is reduced to zero. The importer sells GBP and buys USD 1,000,000 at 1.3000 and the Count TARF will terminate after this Fixing Date.

The Leveraged Count TARF

Product Description

A Leveraged Count Target Accrual Redemption Forward (TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date.

The client selects the number and frequency of Fixing Dates and the Target Count of In The Money Fixings. The client's benefit of transacting at the Enhanced Rate is limited to the number of Target Counts it selects.

The Target Count is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate to determine the outcome.

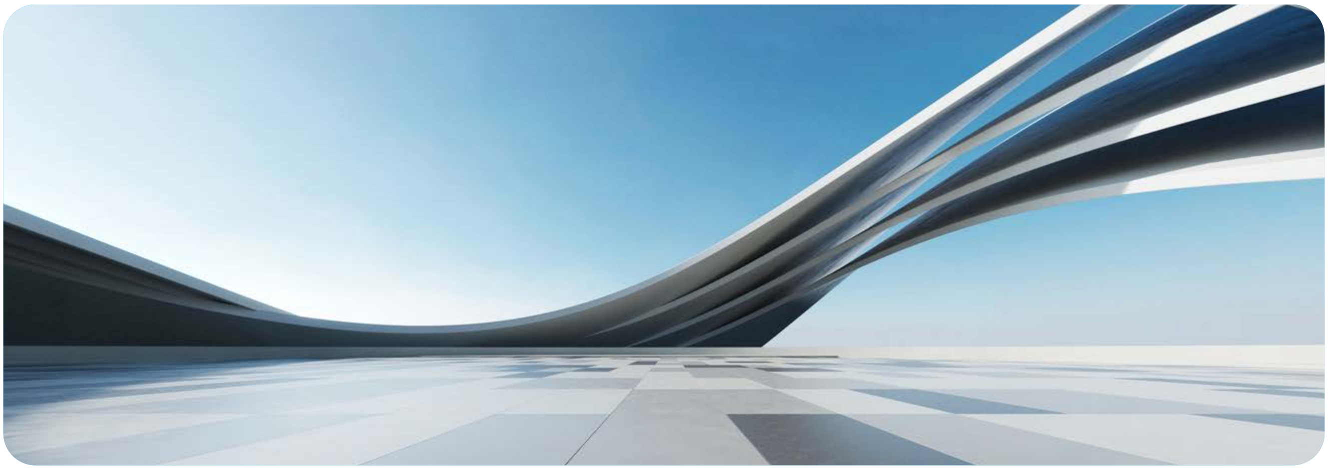
If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate for that Fixing.

If the Enhanced Rate is more favourable than the Fixing Rate, the client will transact the Notional Amount at the Enhanced Rate, and the Target Count will be reduced by one.

If the Target Count reduces to zero, at this point, the Leveraged Count TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Leveraged Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Ratio (Leverage) (per Fixing Date);
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Target Count.



Possible Scenarios:

At each Fixing Date, the Enhanced Rate is compared to the Fixing Rate:

Scenario 1: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Count is greater than zero, the client will transact the Notional Amount at the Enhanced Rate. The Target Count will be reduced by one.

This process will repeat at each Fixing Date until the Target Count is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Enhanced Rate is less favourable than the Fixing Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate, and the Target Count is unaffected.

Scenario 3: If the Enhanced Rate is more favourable than the Fixing Rate and the Target Count reduces to zero, the client will transact the Notional Amount at the Enhanced Rate. At this point, the Leveraged Count TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until the Target Count of In The Money Fixings is fully redeemed.
- The maximum profit, or gain versus the spot rate, is not fixed at a set Target Amount number of points like with other TARF variants.
- Once the Target Count is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Count is fully utilised, the Leveraged Count TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favourable market rate.
- If the market rate (Fixing Rate) is more favourable than the Enhanced Rate on any Fixing Date, the client will be obligated to transact the Notional Amount at the less favourable Enhanced Rate.
- Leveraged Count TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a Leveraged Count TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.

Example

A UK exporter operates a diversified currency hedging strategy and needs to buy GBP 1,00,000 per month, for a total of GBP 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2800 and the equivalent Forward Rate is 1.2770.

The exporter has a budget rate of 1.2000 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full GBP 12,000,000 at 1.2000 or they may be obligated to transact the full GBP 12,000,000 at 1.2000 should GBPUSD depreciate.

The exporter enters into a Leveraged Count TARF with the following terms:

- ✓ Enhanced Rate of 1.2000 per Fixing Date and a Target Count of 5 In The Money Fixings
- ✓ 12x monthly Fixing Dates with a Notional Amount of GBP 500,000 per Fixing Date
- ✓ A Ratio of 1:2, meaning the Leveraged Notional Amount is GBP 1,000,000 per Fixing Date

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2650.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Count is reduced by 1 to 4.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2450.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Count is reduced by 1 to 3.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2150.** The exporter sells USD and buys GBP 500,000 at 1.2000. The Target Count is reduced by 1 to 2.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1950.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Count is unchanged and remains at 2.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1870.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Count is unchanged and remains at 2.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1970.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2000. The Target Count is unchanged and remains at 2.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.2025.** The exporter sells USD and buys GBP 500,000, the Leveraged Notional Amount, at 1.2000. The Target Count is reduced by 1 to 1.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.2085,** meaning this will be the importer's final Fixing Date as the Target Count will is reduced to zero. The exporter sells USD and buys GBP 500,000 at 1.2000 and the Leveraged Count TARF will terminate after this Fixing Date.

The European Knock In (EKI) TARF

Product Description

A European Knock In Target Accrual Redemption Forward (EKI TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date, and to participate in favourable exchange rate movements as far as a predefined Barrier Rate at each Fixing Date.

The client selects the number and frequency of Fixing Dates and the Target Amount. The client's benefit of transacting at the Enhanced Rate is limited to the Target Amount.

The Target Amount is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate and the Barrier Rate to determine the outcome.

If the Fixing Rate is more favourable than the Barrier Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate for that Fixing.

If the Fixing Rate is more favourable than the Enhanced Rate, but less favourable than the Barrier Rate, the client is free from obligation and can trade at the Spot Rate.

If the Fixing Rate is less favourable than the Enhanced Rate and the Target Amount balance is greater than the difference between the Enhanced Rate and the Fixing Rate, the client will transact the Notional Amount at the Enhanced Rate. The Target Amount will be reduced by the difference between the Enhanced Rate and the Fixing Rate.

If the Fixing Rate is less favourable than the Enhanced Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the EKI TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Barrier Rate (per Fixing Date);
- the Target Amount;
- the Final Fixing Type.

There are three Final Fixing scenarios which can be chosen when purchasing the EKI TARF:

1. **Guaranteed Final Fixing:** The full Notional Amount is transacted at the Enhanced Rate.
2. **Adjusted Notional:** The amount transacted at the Enhanced Rate is calculated by dividing the remaining Target Amount by the difference between the Enhanced Rate and the Fixing Rate, and then multiplying by the Notional Amount.
3. **Adjusted Rate:** The Enhanced Rate is adjusted so it is more favourable than the Fixing Rate by the remaining Target Amount. The full Notional Amount is then transacted at the adjusted rate

Possible Scenarios:

At each Fixing Date, the Fixing Rate is compared to the Enhanced Rate and the Barrier Rate:

Scenario 1: If the Fixing Rate is less favourable than the Enhanced Rate by an amount less than the Target Amount balance, the client will transact the Notional Amount at the Enhanced Rate, and the Target Amount will be reduced by the difference between the Fixing Rate and Enhanced Rate.

This process will repeat at each Fixing Date until the Target Amount is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Fixing Rate is more favourable than the Enhanced Rate, but less favourable than the Barrier Rate, the client is free from obligation and can trade at the Spot Rate.

Scenario 3: If the Fixing Rate is more favourable than the Barrier Rate, the client will be obligated to transact the Notional Amount at the Enhanced Rate, and the Target Amount balance is unaffected.

Scenario 4: If the Fixing Rate is less favourable than the Barrier Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the EKI TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until all the Target Amount is fully redeemed.
- Ability to participate in favourable exchange rate movements as far as the Barrier Rate.
- The maximum profit, or gain versus the spot rate, is known from the outset.
- Once the Target Amount is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Amount is fully utilised, the EKI TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favorable market rate.
- If the market rate (Fixing Rate) is more favourable than the Barrier Rate on any Fixing Date, the client will be obligated to transact the Notional Amount at the less favorable Enhanced Rate.
- EKI TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a EKI TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.

Example

A UK importer operates a diversified currency hedging strategy and needs to buy USD 1,000,000 per month, for a total of USD 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2500 and the equivalent Forward Rate is 1.2470.

The importer has a budget rate of 1.2800 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full USD 12,000,000 at 1.2800 or they may be obligated to transact the full USD 12,000,000 at 1.2800 should GBPUSD appreciate.

The importer enters into a EKI TARF with the following terms:

- ✓ Enhanced Rate of 1.2800 per Fixing Date, Barrier Rate of 1.3400 per Fixing Date
- ✓ Target Amount of 0.2000
- ✓ 12x monthly Fixing Dates with a Notional Amount of USD 1,000,000 per Fixing Date

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2400.** The importer sells GBP and buys USD 1,000,000 at 1.2800. The Target Amount is reduced by 0.0400 (400 points) to 0.1600.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2100.** The importer sells GBP and buys USD 1,000,000 at 1.2800. The Target Amount is reduced by 0.0700 (700 points) to 0.0900.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2550.** The importer sells GBP and buys USD 1,000,000 at 1.2800. The Target Amount is reduced by 0.0250 (250 points) to 0.0650.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3230.** The importer is free from obligation and can transact at the Spot Rate should they wish. The Target Amount is unchanged and remains at 0.0650.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3470.** The importer sells GBP and buys USD 1,000,000 at 1.2800. The Target Amount is unchanged and remains at 0.0650.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3540.** The importer sells GBP and buys USD 1,000,000 at 1.2800. The Target Amount is unchanged and remains at 0.0650.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.3125.** The importer is free from obligation and can transact at the Spot Rate should they wish. The Target Amount is unchanged and remains at 0.0650.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.2000,** meaning the difference between the Enhanced Rate of 1.2800 and the Fixing Rate of 1.2000 (=0.0800) exceeds the remaining Target Amount (=0.0650), therefore the EKI TARF will terminate after this Fixing Date.

The outcome of the final Fixing for the client depends upon the Final Fixing Type. Here are the three possible outcomes:

- **Guaranteed Final Fixing:** The importer sells GBP to buy USD 1,000,000 at 1.2800.
- **Adjusted Notional:** The importer sells GBP to buy USD 650,000 (=1,000,000 x (0.0650/0.1000)) at 1.2800
- **Adjusted Rate:** The importer sells GBP to buy USD 1,000,000 at 1.2650 (1.2000 + 0.0650).

The Leveraged European Knock In (EKI) TARF

Product Description

A Leveraged European Knock In Target Accrual Redemption Forward (EKI TARF) allows the client to partially hedge its currency exposure at a predefined Enhanced Rate more favourable than the forward rate at the trade date, and to participate in favourable exchange rate movements as far as a predefined Barrier Rate.

The client selects the number and frequency of Fixing Dates and the Target Amount. The client's benefit of transacting at the Enhanced Rate is limited to the Target Amount, which is its maximum gain from the Leveraged EKI TARF.

The Target Amount is utilised at each Fixing Date where the Enhanced Rate is more favourable than the Fixing Rate. On each Fixing Date, the Fixing Rate is compared to the Enhanced Rate and the Barrier Rate to determine the outcome.

If the Fixing Rate is more favourable than the Barrier Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate for that Fixing.

If the Fixing Rate is more favourable than the Enhanced Rate, but less favourable than the Barrier Rate, the client is free from obligation and can trade at the Spot Rate.

If the Fixing Rate is less favourable than the Enhanced Rate and the Target Amount balance is greater than the difference between the Enhanced Rate and the Fixing Rate, the client will transact the Notional Amount at the Enhanced Rate. The Target Amount will be reduced by the difference between the Enhanced Rate and the Fixing Rate.

If the Fixing Rate is less favourable than the Enhanced Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the Leveraged EKI TARF will terminate.

At the trade date, the following variables will be agreed between the client and Ebury:

- the Notional Amount (per Fixing Date);
- the Leveraged Notional Amount (per Fixing Date);
- the Buy Currency;
- the Sell Currency;
- the Ratio (Leverage) (per Fixing Date);
- the Fixing Dates;
- the Fixing frequency;
- the Enhanced Rate (per Fixing Date);
- the Barrier Rate (per Fixing Date);
- the Target Amount;;
- the Final Fixing Type.

There are three Final Fixing scenarios which can be chosen when purchasing the Leveraged EKI TARF:

1. **Guaranteed Final Fixing:** The full Notional Amount is transacted at the Enhanced Rate.
2. **Adjusted Notional:** The amount transacted at the Enhanced Rate is calculated by dividing the remaining Target Amount by the difference between the Enhanced Rate and the Fixing Rate, and then multiplying by the Notional Amount.
3. **Adjusted Rate:** The Enhanced Rate is adjusted so it is more favourable than the Fixing Rate by the remaining Target Amount. The full Notional Amount is then transacted at the adjusted rate.

Possible Scenarios:

At each Fixing Date, the Fixing Rate is compared to the Enhanced Rate and the Barrier Rate:

Scenario 1: If the Fixing Rate is less favourable than the Enhanced Rate by an amount less than the Target Amount balance, the client will transact the Notional Amount at the Enhanced Rate, and the Target Amount will be reduced by the difference between the Fixing Rate and Enhanced Rate.

This process will repeat at each Fixing Date until the Target Amount is fully utilised, at which point all remaining Fixings will be terminated, or until the Expiry Date is reached.

Scenario 2: If the Fixing Rate is more favourable than the Enhanced Rate, but less favourable than the Barrier Rate, the client is free from obligation and can trade at the Spot Rate.

Scenario 3: If the Fixing Rate is more favourable than the Barrier Rate, the client will be obligated to transact the Leveraged Notional Amount at the Enhanced Rate, and the Target Amount balance is unaffected.

Scenario 4: If the Fixing Rate is less favourable than the Barrier Rate by an amount greater or equal to the Target Amount balance, the client will transact per the predefined Final Fixing Type, which may be an adjusted Notional Amount at the Enhanced Rate, the Notional Amount at an adjusted Rate, or the Notional Amount at the Enhanced Rate. At this point, the Leveraged EKI TARF will terminate.

Advantages

- Ability to achieve a more favourable exchange rate than the equivalent Forward Contract Rate until all the Target Amount is fully redeemed.
- Ability to participate in favourable exchange rate movements as far as the Barrier Rate
- The maximum profit, or gain versus the spot rate, is known from the outset.
- Once the Target Amount is fully utilised, all remaining fixings are terminated, meaning the client can re-hedge free of further contingent liabilities.

Disadvantages

- Once the Target Amount is fully utilised, the Leveraged EKI TARF terminates and ceases to exist, meaning the client may be unhedged for the remaining fixings and consequently may need to trade at the less favorable market rate.
- If the market rate (Fixing Rate) is more favourable than the Barrier Rate on any Fixing Date, the client will be obligated to transact the Notional Amount at the less favorable Enhanced Rate.
- Leveraged EKI TARFs generally have a longer term compared to other hedging products, meaning there is a greater risk that during the term of a Leveraged EKI TARF, the Enhanced Rate will no longer be favourable when compared to the prevailing market rate.
- If the market rate moves unfavourably, Ebury may make a Margin Call to cover the out-the-money position.
- Leveraged EKI TARFs exhibit a less favourable mark-to-market profile than the (non-leveraged) EKI TARF, meaning that there is an increased risk of significant losses and/or margin calls.

Example

A UK exporter operates a diversified currency hedging strategy and needs to buy GBP 1,00,000 per month, for a total of GBP 12,000,000, over the next 12 months as part of its overall strategy. The GBPUSD Spot Rate is 1.2800 and the equivalent Forward Rate is 1.2770.

The exporter has a budget rate of 1.2300 and is reluctant to enter a contract that may result in an obligation to convert at an exchange rate less favourable than this, but is willing to accept the risks that they may not be able to transact the full GBP 12,000,000 at 1.2300 or they may be obligated to transact the full GBP 12,000,000 at 1.2300 should GBPUSD depreciate.

The exporter enters into an Leveraged TARF with the following terms:

- ✓ Enhanced Rate of 1.2300 per Fixing Date and a Barrier Rate of 1.1900 per Fixing Date
- ✓ Target Amount of 0.2000
- ✓ 12x monthly Fixing Dates with a Notional Amount of GBP 500,000 per Fixing Date
- ✓ A Ratio of 1:2, meaning the Leveraged Notional Amount is GBP 1,000,000 per Fixing Date

Possible Outcomes at Fixing:

- **On the first Fixing Date, the GBPUSD Exchange Rate is trading at 1.2850.** The exporter sells USD and buys GBP 500,000 at 1.2300. The Target Amount is reduced by 0.0550 (550 points) to 0.1450.
- **On the second Fixing Date, the GBPUSD Exchange Rate is trading at 1.2750.** The exporter sells USD and buys GBP 500,000 at 1.2300. The Target Amount is reduced by 0.0450 (450 points) to 0.1000.
- **On the third Fixing Date, the GBPUSD Exchange Rate is trading at 1.2650.** The exporter sells USD and buys GBP 500,000 at 1.2300. The Target Amount is reduced by 0.0350 (350 points) to 0.0650.
- **On the fourth Fixing Date, the GBPUSD Exchange Rate is trading at 1.2150.** The exporter is free from obligation and can transact at the Spot Rate should they wish. The Target Amount is unchanged and remains at 0.0650.
- **On the fifth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1870.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2300. The Target Amount is unchanged and remains at 0.0650.
- **On the sixth Fixing Date, the GBPUSD Exchange Rate is trading at 1.1650.** The exporter sells USD and buys GBP 1,000,000, the Leveraged Notional Amount, at 1.2300. The Target Amount is unchanged and remains at 0.0650.
- **On the seventh Fixing Date, the GBPUSD Exchange Rate is trading at 1.1925.** The exporter is free from obligation and can transact at the Spot Rate should they wish. The Target Amount is unchanged and remains at 0.0650.
- **On the eighth Fixing Date, the GBPUSD Exchange Rate is trading at 1.3300,** meaning the difference between the Enhanced Rate of 1.2300 and the Fixing Rate of 1.3300 (=0.1000) exceeds the remaining Target Amount (=0.0650), therefore the TARF will terminate after this Fixing Date.

The outcome of the final Fixing for the client depends upon the Final Fixing Type. Here are the three possible outcomes:

- **Guaranteed Final Fixing:** The exporter sells USD to buy GBP 500,000 at 1.2300.
- **Adjusted Notional:** The exporter sells USD to buy GBP 325,000 (=500,000 x (0.0650/0.1000)) at 1.2300
- **Adjusted Rate:** The exporter sells USD to buy GBP 500,000 at 1.2650 (1.3300 - 0.0650).

Glossary

Barrier Rate	Foreign exchange rate as agreed by you and Ebury. If the prevailing Fixing Rate reaches the Barrier rate at the Fixing this will affect the rate at which you may need to exchange the currencies under the relevant TARF.
Ebury	Ebury Partners Markets Ltd
Enhanced Rate	The Enhanced Rate is the pre-agreed exchange rate at which the holder can exchange one currency for another.
Fixing Date	A Fixing Date in a Target Redemption Forward (TARF) is the date on which the Fixing Rate is compared to the Enhanced Rate to determine the TARF outcome for the predefined fixing
Fixing Rate	A Fixing Rate in a Target Redemption Forward (TARF) is the Exchange Rate that is used to determine the outcome of the TARF at each Fixing Date
Forward Contract	Legal binding agreement between you or another customer and Ebury to exchange one currency for another at an agreed Exchange Rate on a Value Date more than two (2) Business Days after the Trade Date.
GBP	Great British Pound
Leveraged Notional Amount	Notional Amount multiplied by an amount as agreed by Ebury and you on the relevant Trade Date.
Notional Amount	Predetermined currency amount to be bought or sold pursuant to an Option or Forwards.
Spot Rate	The current Exchange Rate for a given currency pair.
TARF	Target Accrual Redemption Forward.
Target Amount	The Target Amount in a TARF is the predefined profit level at which the TARF automatically terminates.
Target Count	The Target Count in a TARF is the predefined guaranteed Fixings at which the TARF automatically terminates.

Ebury

100 Victoria Street, London SW1E 5JL

+44 (0) 20 3872 6670 | info@ebury.com | ebury.com