

# Barrier FX Options

## Product Overview



JUN JUL AUG SEP OCT

Bank of Ireland 

Global Markets

## Barrier FX Options

The Governor and Company of the Bank of Ireland acting through its business unit Global Markets (hereafter “Bank of Ireland”) provides Barrier Foreign Exchange as a tool for managing cross currency exposure.

A Barrier Foreign Exchange (FX) Option which, when purchased from Bank of Ireland, can provide limited protection against adverse cross-currency movements.

A Barrier FX Option is an agreement between the Bank and a customer to enter into an FX Option contract dependant on a specified pre-agreed FX level (Barrier) being reached (Knock-In) or not being reached (Knock-Out).

### Features:

- ▶ The Barriers can be Knock-In, meaning that the Option is live once the barrier is reached or Knock-Out, meaning that the Option is no longer live if the barrier is reached.
- ▶ The barriers can be European (only observed on the Expiry Date) or American (continually observed).

The underlying option may provide the buyer with the ability to buy one currency in exchange for another at expiry subject to the Knock-In or Knock out condition.

This document has been prepared as an information/marketing communication. If you would like more detail on these products please contact your Bank of Ireland Relationship Manager or your Bank of Ireland Global Markets contact. For a more detailed product overview on FX Options please see our Guide to Foreign Exchange Management which can be found at <https://corporate.bankofireland.com/library/>.

Bank of Ireland doesn't provide products for speculative purposes. Products are provided to manage a known exposure e.g. where you have a requirement to exchange currencies to match business requirements.

Other mechanisms / products are available to manage FX risk including, but not exclusively, FX options and FX forwards. Please contact your Bank of Ireland Relationship Manager for further details.

We may be in a position to provide a solution tailored to your particular requirements dependent on your experience.

### PLEASE NOTE:

**Bank of Ireland Global Markets does not provide investment advice and provides risk management solutions on a strictly non-advised basis only.**

**You should consider seeking your own independent advice on the financial and legal aspects before entering into any derivative transaction**

Terminology used in this document is defined within the glossary in our Guide to Interest Rate Management and Guide to Foreign Exchange Management which can be found at <https://corporate.bankofireland.com/library/>.

The product outlined in this booklet is intended for both retail and professional clients taking account of the identified target market in accordance with Appendix 1 of our Guide to Interest Rate Management and Guide to Foreign Exchange Management which can be found at <https://corporate.bankofireland.com/library/>.

## Key Benefits

### Certainty once the Barrier is live i.e. knocked in or not knocked-out

- ▶ A Barrier FX Option enables you to align your cashflows and view of the market by considering the following parameters:
  - ▶ Notional Amounts
  - ▶ Currencies of the Notional Amounts
  - ▶ Strike rate for the Underlying FX Option
  - ▶ Barrier Rate
  - ▶ Barrier Type (European or American, Knock-In or Knock-Out)
  - ▶ Effective Date / Start Date
  - ▶ Term / Expiry Date
- ▶ Provides limited protection against adverse currency movements once the Option is live

### Portability

It may also be possible to novate i.e. transfer a Barrier FX Option to another entity or another bank, subject to credit approval.

### Early Termination

It may be possible to terminate the product during the life of the Option, at prevailing market rates. This may incur costs. Please refer to Early Termination section for further information.

## Key Risks

### FX Risk

FX markets can be unpredictable and can move in either direction. As a result, if your option is not exercisable (i.e. you have been Knocked-out or not Knocked-In) than you have no protection for your future FX transaction.

If you sell a Barrier FX Option than if the option is exercised this **will be** at rates which are less favourable than currently available in the market.

### For example:

- ▶ If you have bought a Knock-In Option to sell GBP and buy Euros if a €/£ Barrier rate exceeds a certain Barrier rate, then if this Barrier has not been reached, your option is not live and you have no protection against weaker GBP

### Early Termination / Changes to the terms of the Barrier FX Option

It is sometimes possible to terminate your **Barrier FX Option** early or alter other pre-agreed terms during the life. However, depending on prevailing FX at the time, there may be a cost to you or you may realise a gain. Given these risks it is important that you consider carefully the terms and duration of your **Barrier FX Option** at the time of trading. Please refer to the Early Termination section for further information.

### Counterparty Risk

- ▶ By purchasing an option from Bank of Ireland you have an exposure to Bank of Ireland in the event of insolvency or related events such as bail in.

## How does a Barrier FX Option Work?

The buyer of the Barrier FX Option pays the seller an upfront premium. If the barrier condition is met on expiry then the Option is live and buyer of the option is entitled to exercise their option and buy one currency against another at a pre-agreed strike rate.

## Example

**The examples below are indicative only. In order to assess the merits of any particular Barrier Option, you would need to use the actual rates and figures quoted to you at the time.**

ABC Ltd has a requirement to sell £10m GBP and buy Euro in 9 months time. ABC Ltd wants to protect itself for this FX transaction if GBP weakens above €/\$ 0.95 and wants to have the option to transact at 0.94 if the barrier of 0.95 is exceeded. ABC enters into a 9 month Knock-In Barrier Option with a Barrier Rate of 0.95. ABC Ltd chooses to enter a European style barrier so the Option is knocked in if the FX rate is equal to or above 0.95 at expiry only.

If the Spot FX rate on the expiry date in 9 months is greater than 0.95, then ABC Ltd have the right but not the obligation to sell £10m at the strike rate of 0.94. If the spot rate on expiry is less than 0.95 then ABC Ltd must transact at the prevailing rate.

## Example of an Early Termination

If you wish to terminate early or partially terminate a transaction before its Maturity Date, we will consider such request as soon as reasonably practicable. Should we agree to such a request, the termination may result in a breakage cost payable by either you (to the Bank) or the Bank (to you) (the "Breakage Cost"). This cost will be dependent on the time remaining on the transaction and the relevant market rates available to the Bank on the day on which such Early Termination takes effect. The market rates available are not controlled by the Bank and is impacted by external factors such as volatility, liquidity or lack of thereof and economic or political turbulence. All of these factors will impact the breakage cost. You are strongly advised to discuss potential Early Termination cost with us in advance of requesting an Early Termination of a transaction.

### Early Termination cost calculation for a Barrier FX Option

The Early Termination cost would be determined by the difference between the current FX Spot rate and the FX Spot rate at the time of trading and also by the difference between the current level of FX volatility in the market and the FX volatility in the market at the time of trading.

It is important to investigate breakage costs implications carefully before you proceed to break a transaction before its agreed termination date. Barrier Options are designed to be held to the termination date when hedging an exposure. Please contact your dealer if you require indication breakage pricing on any Barrier Option transactions you hold. We will provide individual calculations on request.

## Should you wish to transact a Barrier FX Option

**You should consider seeking your own independent advice on the financial and legal aspects before entering into any derivative transaction**

Please follow the steps below to enter into a **Barrier FX Option**:

- ▶ talk to your Bank of Ireland Relationship Manager who will refer you to the relevant interest rate derivative contact in our Global Markets unit.
- ▶ ensure you have read and understood this document.
- ▶ you will be required to sign an ISDA Master Agreement.
- ▶ talk to your Bank of Ireland Global Markets contact about the particular parameters of the **Barrier FX Option** you require.

In accordance with the rules and requirements set out by the European Union (Markets in Financial Instruments) Regulations 2017 and the Financial Conduct Authority the Bank of Ireland is required to categorise each client either as eligible counterparty, professional client or retail client. Bank of Ireland also has to assess the appropriateness of the product for each customer. Therefore, you may be required to supply supporting documents in order to establish the client category and the appropriateness of the transaction. Before your first transaction, you should receive a categorisation letter and associated Terms of Business. If you do not receive these before the proposed transaction, please contact your Bank of Ireland Global Markets contact.

Your Bank of Ireland Global Markets contact will give you an indicative quote based on the details of your **Barrier FX Option**. Once you have decided you would like to enter into a **Barrier FX Option**, you will be required to provide the necessary documentation, such as:

- ▶ Mandate and other account opening requirements
- ▶ Credit approval will be required before entering into a Option if you are the seller
- ▶ Confirmation of capacity as detailed in your Memorandum and Articles of Association
- ▶ Execution of an ISDA Master Agreement
- ▶ Any other relevant documents

All conversations such as telephone conversations and electronic communications will be recorded (even where they do not lead to the conclusion of an agreement). Transactions are also executed on recorded lines.

As the prevailing market rates are constantly changing, the rate quoted is only valid for immediate acceptance. This rate may differ from the indicative quote given previously.

Any person authorised in your mandate to trade the relevant product may engage and conclude transactions with Bank of Ireland.

### **Confirmations**

Post-transaction Bank of Ireland will send you a Confirmation outlining the relevant commercial terms of the transaction.

It is important you check the Confirmation to make sure that it matches your understanding of the Trade. If so, please sign and return the Confirmation as directed. In the case of a discrepancy, you will need to raise the matter with your Bank of Ireland Global Markets contact as a matter of urgency.

## **What are the Fees and Charges?**

Typically there are no upfront fees other than the Premium specified. However the Premium agreed will incorporate Bank of Ireland's risk, administration costs and revenue margin.

A disclosure of expected Aggregated Costs and Charges and expected Total Consideration will be provided as an indication via a pre trade term sheet in advance of any transaction. This pre trade term sheet will use actually incurred costs as a proxy for the indication term sheet. We will also provide this information on a post trade term sheet confirming actual Aggregated Costs and Charges and actual Total Consideration following execution of any derivative trade. An itemised break down of costs will be provided on request.

### **Disclaimer**

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In the UK, Bank of Ireland is authorised by the Central Bank of Ireland and the Prudential Regulation Authority, and is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and our regulation by the Financial Conduct Authority are available from us on request.

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