Pre-termination of IRS Contracts (W5)

This version is superseded. Click here to view the latest guide.

PURPOSE

The document shows the detailed procedure for handling pre-termination of IRS contracts.

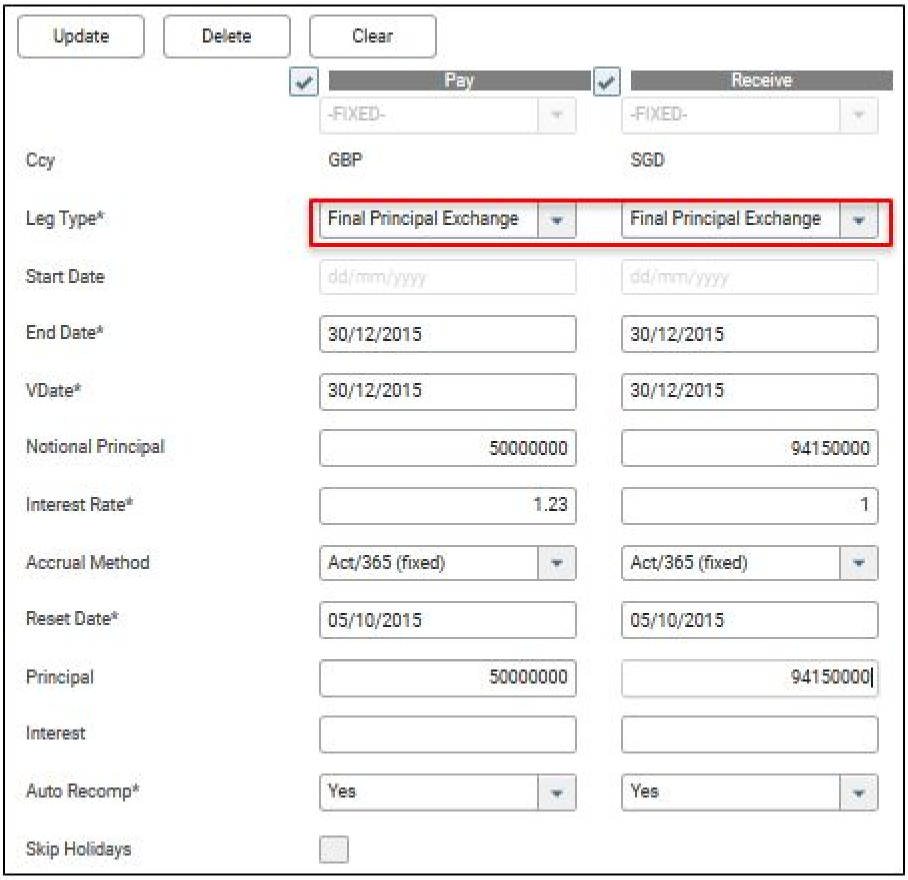
WHY IS THIS IMPORTANT?

Both party of an IRS can agree to bring forward the maturity date of an IRS contract. It may also happen that such early termination applies partially and a residual balance remains in force. The trade(s) recorded in the system need(s) to reflect such changes so that accounting and cash flow are correctly processed.

PROCEDURE

Note: Notional IRS does not need to perform steps 1 to 5.

1. To pre-terminate the IRS, book the pre-termination as “Final Principal Exchange” in the Maintain Interest Rate Swap screen. Key in End Date, VDate, Notional Principal, Interest Rate, Reset Date and Principal amount. In this example, we will book the pre-termination for 30-Dec-2015. Tick the box next to Pay and Receive and click Update.



2. A repayment line will be inserted into the IRS schedule for date 30-Dec-2015.

Maintain Interest Rate Swap dev01

Save | Revert | Book/Unbook

VDate	P TradeID	P Ccy	Borrowings	P Rate	P Interest CF	P Principal CF	P Total	R Ccy	R TradeID	Lending Balance	R Rate	R Interest CF	R Principal CF
4 Apr 2014	IRS100011/001	GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD	IRS100011/002	9,415,000.00	1.000000	46,946.03	0.00
4 Oct 2014	IRS100011/003	GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD	IRS100011/004	9,415,000.00	1.000000	47,203.97	0.00
4 Apr 2015	IRS100011/005	GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD	IRS100011/006	9,415,000.00	1.000000	46,946.03	0.00
4 Oct 2015	IRS100011/007	GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD	IRS100011/008	9,415,000.00	1.000000	47,203.97	0.00
30 Dec 2015		GBP	50,000,000.00	1.230000	-146,589.04	-50,000,000.00	-50,146,589.04	SGD		94,150,000.00	1.000000	224,412.33	94,150,000.00
4 Apr 2016		GBP	50,000,000.00	1.230000	-161,753.42	0.00	-161,753.42	SGD		9,415,000.00	1.000000	24,696.49	0.00
4 Oct 2016		GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD		9,415,000.00	1.000000	47,075.00	0.00
4 Apr 2017		GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD		9,415,000.00	1.000000	46,883.30	0.00
4 Oct 2017		GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD		9,415,000.00	1.000000	47,203.97	0.00
4 Apr 2018		GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD		9,415,000.00	1.000000	46,946.03	0.00

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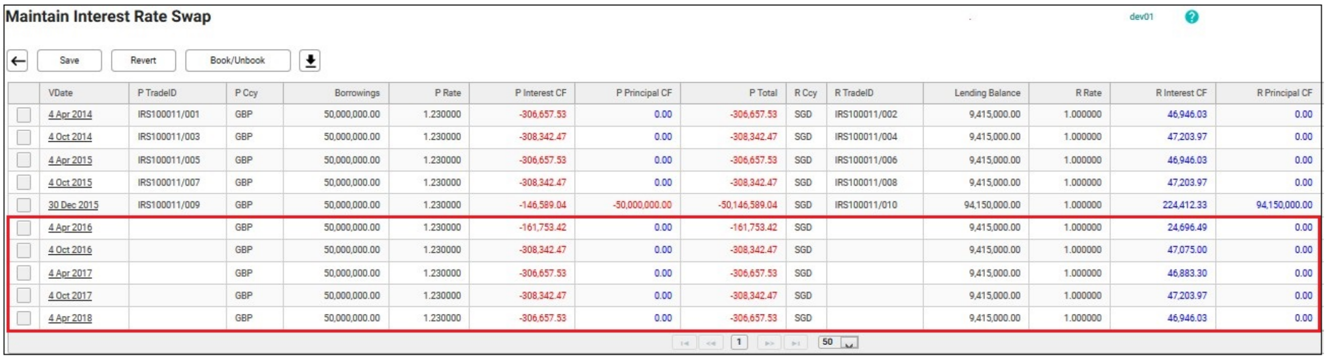
3. Click Save to save the IRS schedule.

4. System will return you to Amend Interest Rate Swap screen. Click on Structure to go back to Maintain Interest Rate Swap screen.

5. Tick the box next to 30-Dec-2015 and click Book/Unbook to book the pre-termination trade. Once it is booked, you will see the trade ID assigned to it.

6. Delete all the future repayments from the existing IRS schedule so no journals will be generated in the future for this trade. Click on the date individually, the details will be populated at the fields at the bottom of the page. Click Delete.


Maintain Interest Rate Swap

dev01

Save | Revert | Book/Unbook

VDate	P TradeID	P Ccy	Borrowings	P Rate	P Interest CF	P Principal CF	P Total	R Ccy	R TradeID	Lending Balance	R Rate	R Interest CF	R Principal CF
4 Apr 2014	IRS100011/001	GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD	IRS100011/002	9,415,000.00	1.000000	46,946.03	0.00
4 Oct 2014	IRS100011/003	GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD	IRS100011/004	9,415,000.00	1.000000	47,203.97	0.00
4 Apr 2015	IRS100011/005	GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD	IRS100011/006	9,415,000.00	1.000000	46,946.03	0.00
4 Oct 2015	IRS100011/007	GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD	IRS100011/008	9,415,000.00	1.000000	47,203.97	0.00
30 Dec 2015	IRS100011/009	GBP	50,000,000.00	1.230000	-146,589.04	-50,000,000.00	-50,146,589.04	SGD	IRS100011/010	94,150,000.00	1.000000	224,412.33	94,150,000.00
4 Apr 2016		GBP	50,000,000.00	1.230000	-161,753.42	0.00	-161,753.42	SGD		9,415,000.00	1.000000	24,696.49	0.00
4 Oct 2016		GBP	50,000,000.00	1.230000	-308,342.47	0.00	-308,342.47	SGD		9,415,000.00	1.000000	47,075.00	0.00
4 Apr 2017		GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD		9,415,000.00	1.000000	46,883.30	0.00
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4 Apr 2018		GBP	50,000,000.00	1.230000	-306,657.53	0.00	-306,657.53	SGD		9,415,000.00	1.000000	46,946.03	0.00

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7. After deleting all the future repayments, click Save to save the schedule.

8. In the case of a partial early termination, repeat steps 1 to 7. For the residual balance, book a new IRS trade with appropriate interest payable and receivable. Make some notes on this trade to reference to the original trade. You can also attach the partial early termination letter to the original trade to indicate that it has been partially terminated.

FREQUENTLY ASKED QUESTIONS

RELATED INFORMATION

Maintain Interest Rate Swap

CHANGE HISTORY

Date	By	Changes
13-Jan-2016	TS	Created
8-Jun-2016	Richard	Proofread
8-Jan-2020	Lyra	Updated Screenshots.