TCX Fund

How banks can use TCX

Subject to compliance with TCX's KYC requirements, and with credit approval and ISDA documentation being concluded, TCX can transact with banks. TCX offers non-deliverable swaps and forwards: TCX does not get involved with spot transactions. The buying and selling of local currency ("LCY"), must be done by the bank itself.

The below case studies describe how TCX can provide hedging products for the benefit of the bank. The case studies are not exhaustive and we encourage parties to contact us for any questions on our hedging services.

Hedging hard currency liabilities

Situation: a bank attracts debt from offshore sources which it wishes to use to fund LCY assets. If the debt is in USD, this will lead to a currency mismatch. **TCX's solution:** the bank can source a cross-currency hedge from TCX. **Benefits:** the direct hedging route, i.e. borrowing in USD from offshore lenders and hedging with TCX, gives the bank great flexibility in relation to the hedged amount and the timing of the hedge: the bank can freely determine whether it wishes to hedge the full loan or only a portion and whether to hedge at disbursement or at a later stage.

Hedging the USD deposit base

Situation: a bank has ample USD deposits which it wishes to use to finance LCY assets. **TCX's solution:** the bank buys LCY in the spot market and, to avoid a mismatch, hedges a corresponding portion of its USD deposits through a TCX swap, where TCX "pays" the bank the USD deposit rate and the bank "pays" to TCX the corresponding LCY interest rate over the agreed tenor. **Benefits:** this can be of interest in situations where LCY liquidity is scarce and USD liquidity is sufficient. The swap allows the bank to better match its deposit base with its asset creation.

LCY/LCY interest rate swap

Situation: a bank has floating interest rate LCY liabilities (deposits or other funding sources, such as lines of credit). It wishes to provide credit to its customers at fixed interest rates. **TCX's solution:** TCX provides a fixed-for-floating interest rate swap. **Benefits:** the bank reduces its exposure to interest rate volatility and creates more flexibility in its product offering.

Facilitating cross-border lending and borrowing

Situation: a bank is involved in cross-border lending and/or borrowing across various currency pairs (for instance within a global or regional banking group or with third parties). **TCX's solution:** TCX offers cross-currency hedges in most LCY/LCY currency pairs. **Benefits:** the hedge eliminates currency exposure for any of the counterparties and facilitates efficient liquidity management within the group.

Develop a client-driven FX forward and/or swap market

Situation: corporates and importers/exporters are exposed to exchange rate volatility in the ordinary course of business, by contracting imports or exports or by entering into hard-currency liabilities like debt and/or servicing contracts. **TCX's solution:** if the swap or forward market is not present and active, a bank can develop this market by sourcing the required hedging products from TCX and passing them on to its clients. It can do that per single transaction or by purchasing a single hedge to cover the FX risk on a portfolio of multiple client forwards. **Benefits:** be a market-maker, but carefully manage the bank's risk.

Developing a long-term LCY asset class

Situation: a bank is faced with demand from corporates, projects and/or households (e.g. mortgages) for long-term LCY borrowing, but it lacks the length of funding to match such assets. **TCX's solution:** having access to a source of long-term LCY hedging capacity can enable a bank to proactively build a long-term LCY asset book, while avoiding unsustainable maturity mismatches. **Benefits:** this can facilitate the further growth of long-term LCY assets like capital expenditure loans, mortgage loans, project finance loans etc. Having access to TCX can support a bank's business development efforts and create competitive advantages.