



LEADING TREASURY
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Welcome to this ACT webinar

A fresh approach to interest rate risk management

29 May 2014 | 12.30-13.20 BST

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Introduction

Martin O'Donovan

Deputy Policy & Technical Director

ACT





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Agenda

Introduction

Martin O'Donovan

Deputy Policy & Technical Director, **ACT**

Practical corporate experience

Keith Reed

Group Treasurer, **Belmond (UK)**

Presentation from the sponsor

George Karalis

Director, Corporate Financial Risk Management

Chatham Financial

Zwi Sacho

Consultant, Corporate Hedge Accounting

Chatham Financial

Panel discussion and Q&A



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A fresh approach to interest rate risk management

29 May 2014



Today's Agenda



Belmond Case Study



Pre-deal Considerations



Execution Strategy



**Hedge Accounting and
Post-trade process**

Case Study Belmond (formerly Orient Express)

Company:

Belmond (formerly Orient-Express) is a collection of 45 iconic hotels, river cruises and railway journeys located in 18 countries. It is a NYSE listed entity reporting under US GAAP. Group turnover and EBITDA of about \$600m and \$120m respectively and debt of around \$640m. Market capitalisation of around \$1.4bn.



Project:

Financing and hedging \$552m dual currency term loan. The term loan and a \$105m revolving credit facility were used to repay all of the Group's asset level debt and associated interest rate swaps. Approximately 50% of new debt swapped into fixed rate debt.

Relative value between debt currency options

Quantification of Price
Product Choice
Hedge Accounting
Capital charges

Debt and derivatives documentation and structuring

Hedging constraints
Embedded options
4 ISDAs Negotiated

Implementation strategy

33 existing swaps terminated
Novation agreements
Market hedge
Credit auction

Accounting and Regulatory

Hedge Accounting
Dodd Frank set up and reporting
Ongoing valuations and accounting solution

Case Study Belmond

Before:

15 asset level facilities with average remaining life of 2.5 Years

33 interest rate swap\cap transactions with a \$ notional of \$352m (equivalent)

16 relationship banks

After:

Corporate Term loan due March 2021, dual currency facility

Corporate Revolving Credit Facility due March 2019

6 interest rate swap\cap transactions

8 relationship banks

Today's Agenda



Belmond Case Study



Pre-deal Considerations

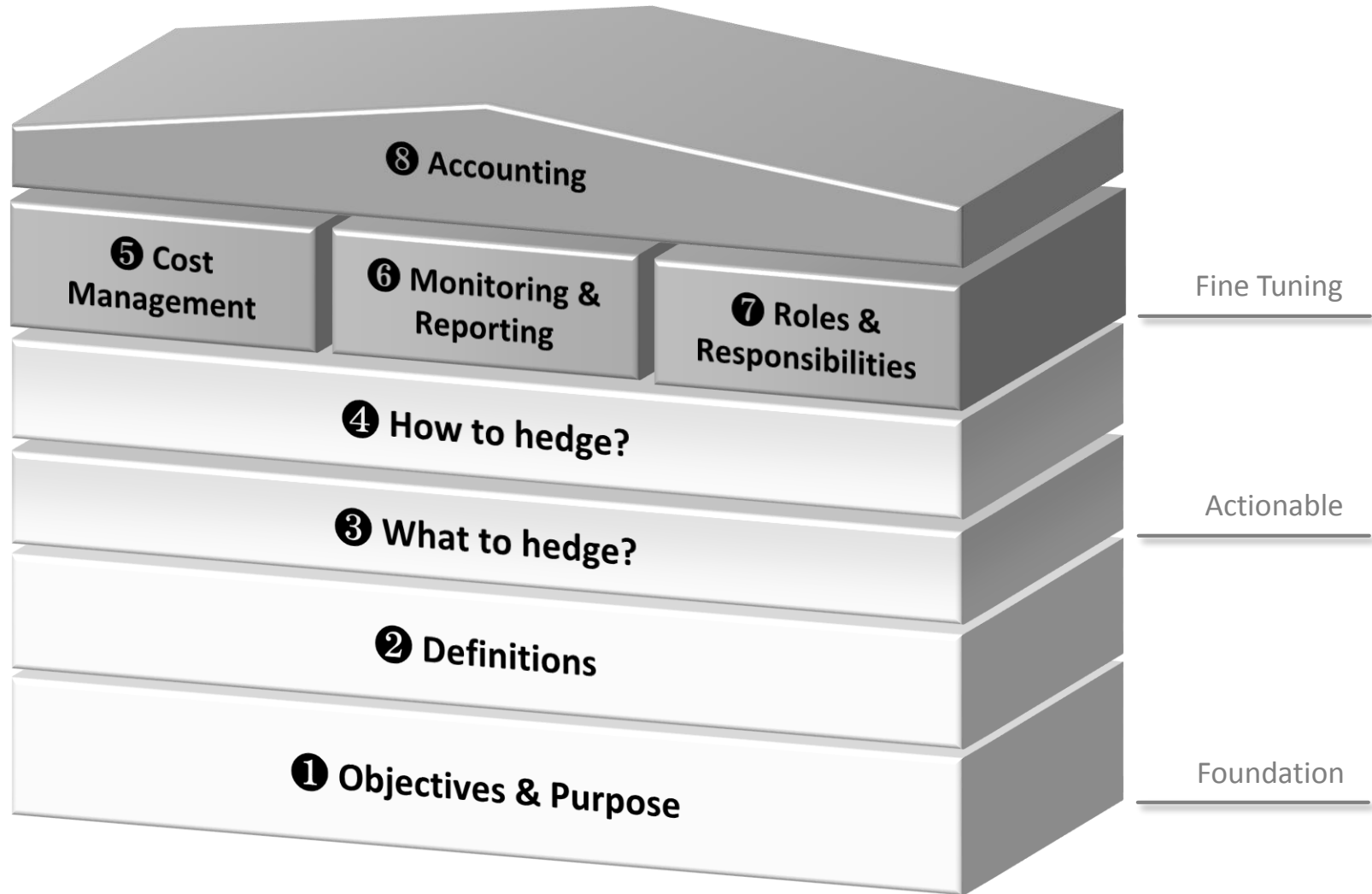


Execution Strategy

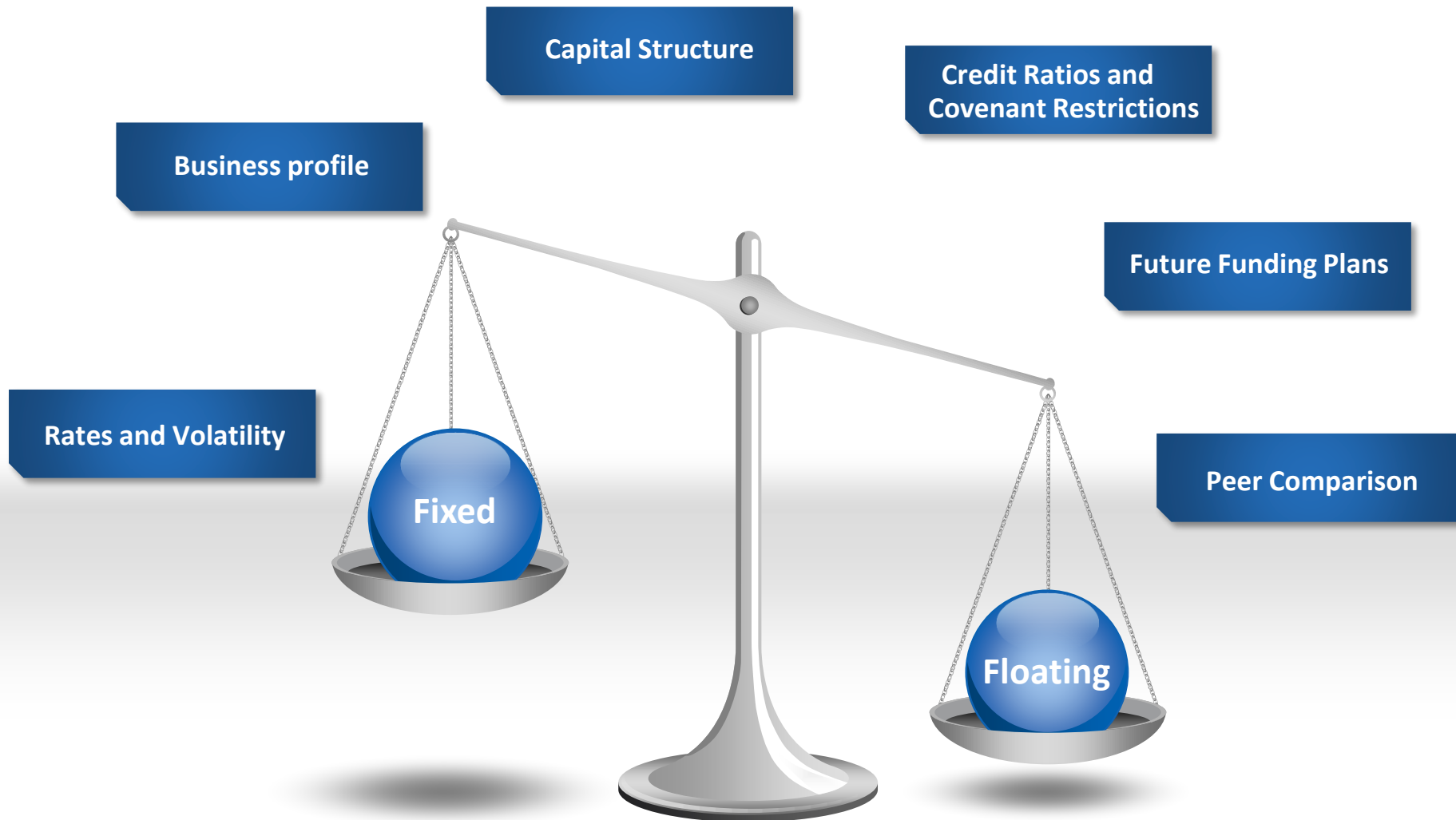


**Hedge Accounting and
Post-trade process**

The Building Blocks of a Best-in-Class Policy

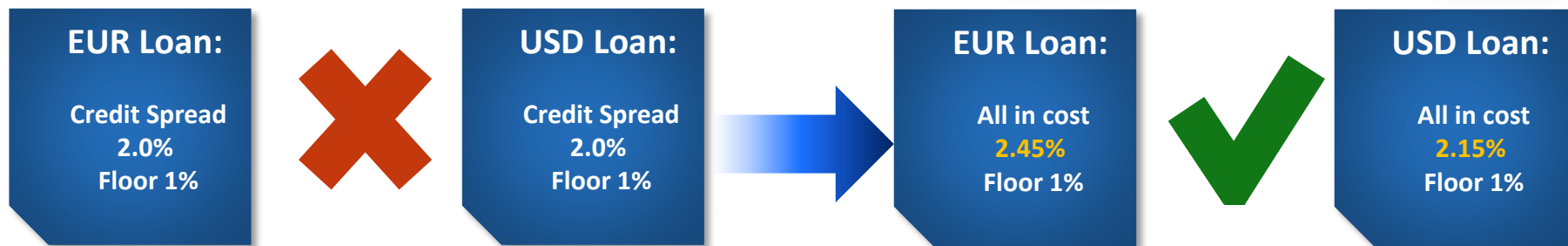


Debt Currency and Fixed & Floating Mix Considerations



Cross-Currency Swaps:

Comparing Interest Rates



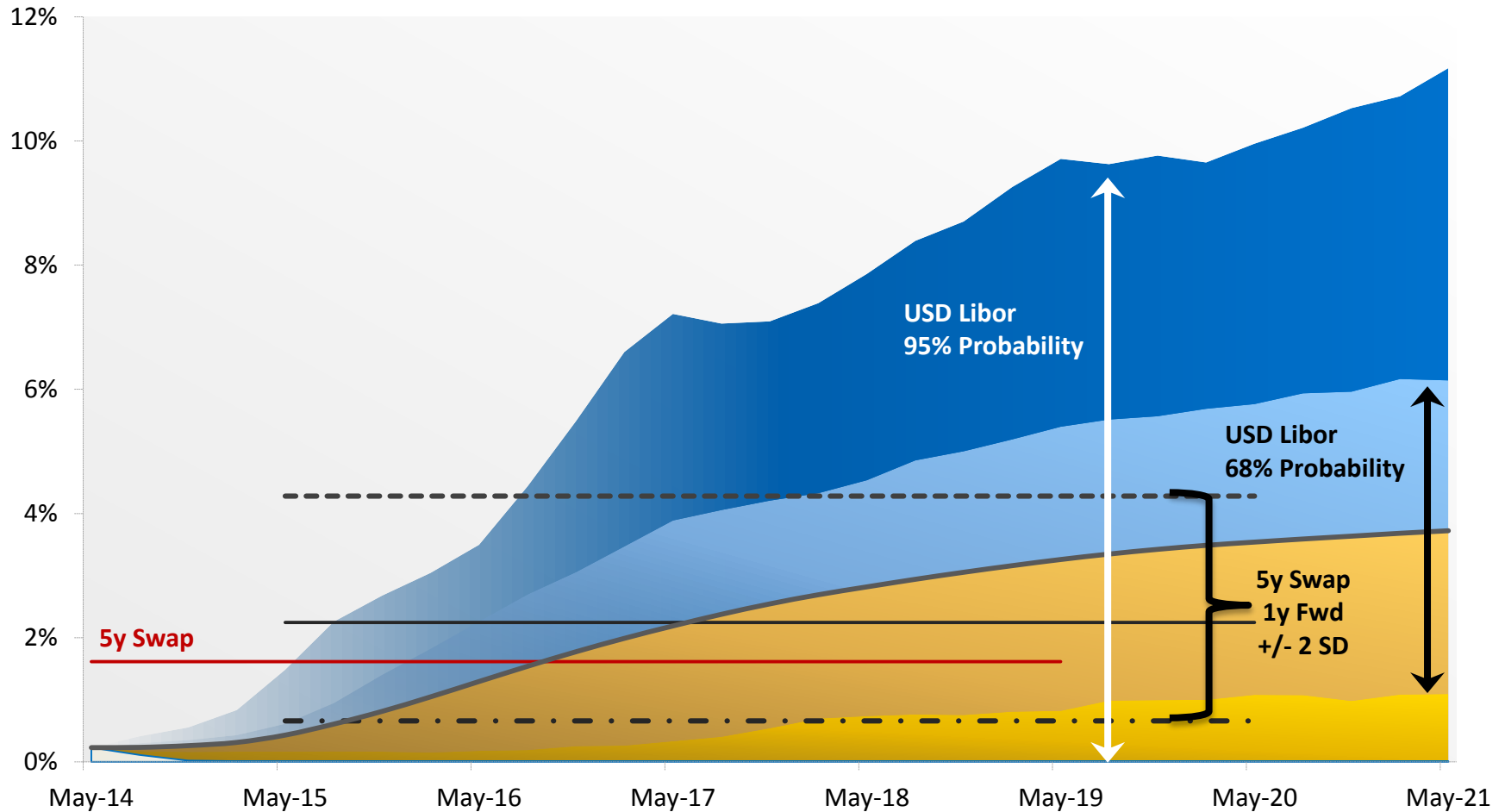
Direct Comparison

- At first glance, borrowing cost in EUR and USD seems equivalent
- Two borrowing costs could not be directly compared
 - USD borrowing cost does not take into account the influence of future FX movements on borrowing cost
 - Value of embedded floor is different

Synthetic Comparison

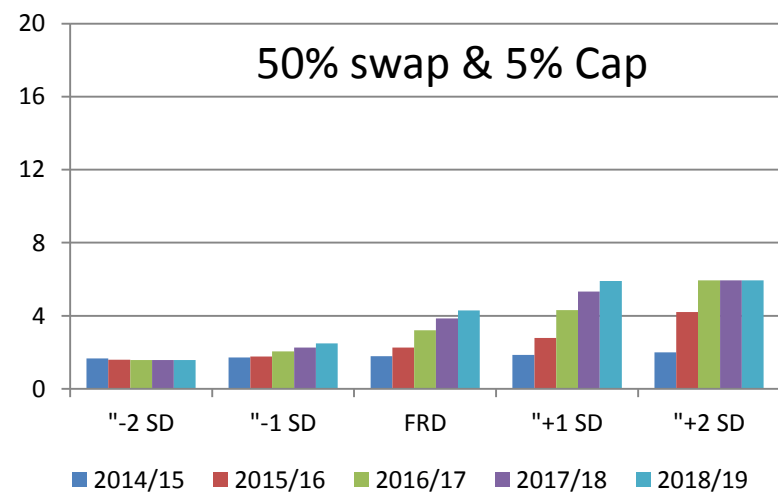
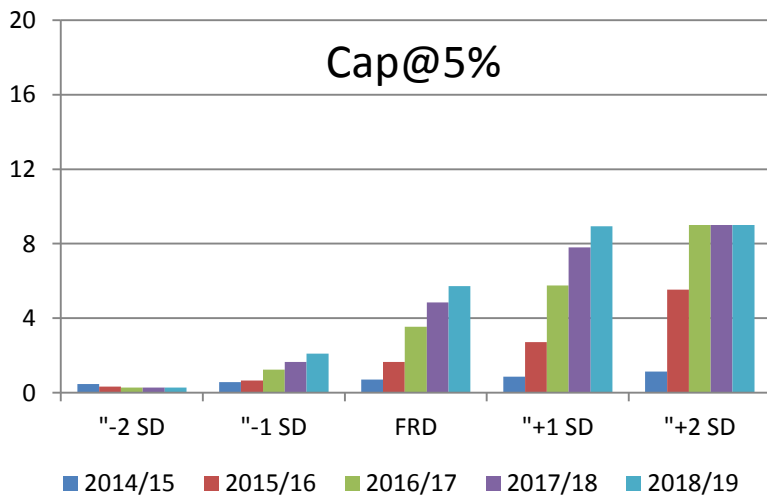
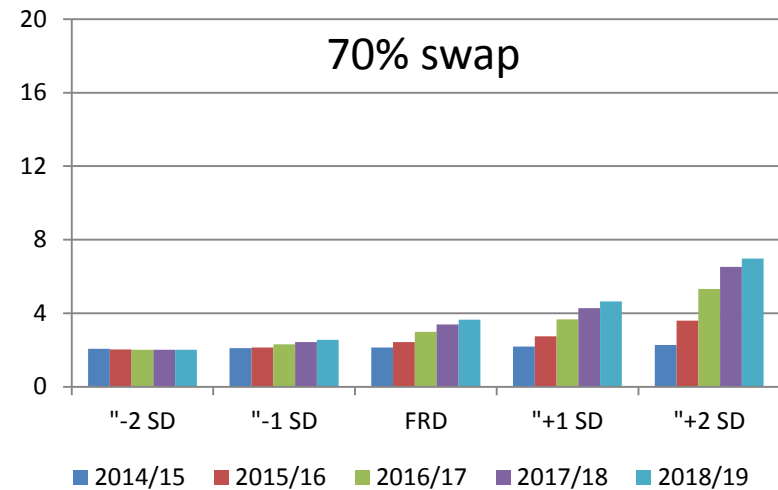
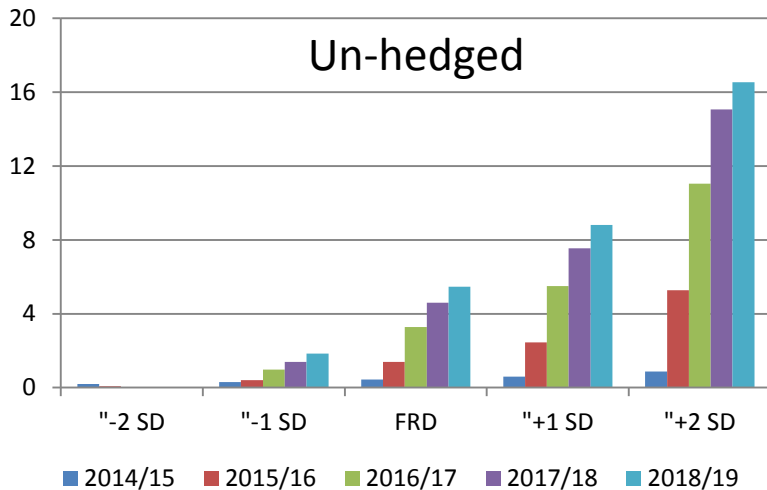
- Synthetically convert USD borrowing cost to EUR borrowing cost through Cross-Currency Swap
 - By entering into a cross-currency swap, only EUR cash flows become relevant as USD cash inflows match with USD outflows
- Insulated from borrowing cost fluctuations due to FX movements

USD Interest rate environment – projected exposure



*3M Libor forward curves as of 05.23.2014

Hedging Scenarios – Interest Expense p.a. (\$175m Loan)



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Belmond Case Study



Pre-deal Considerations



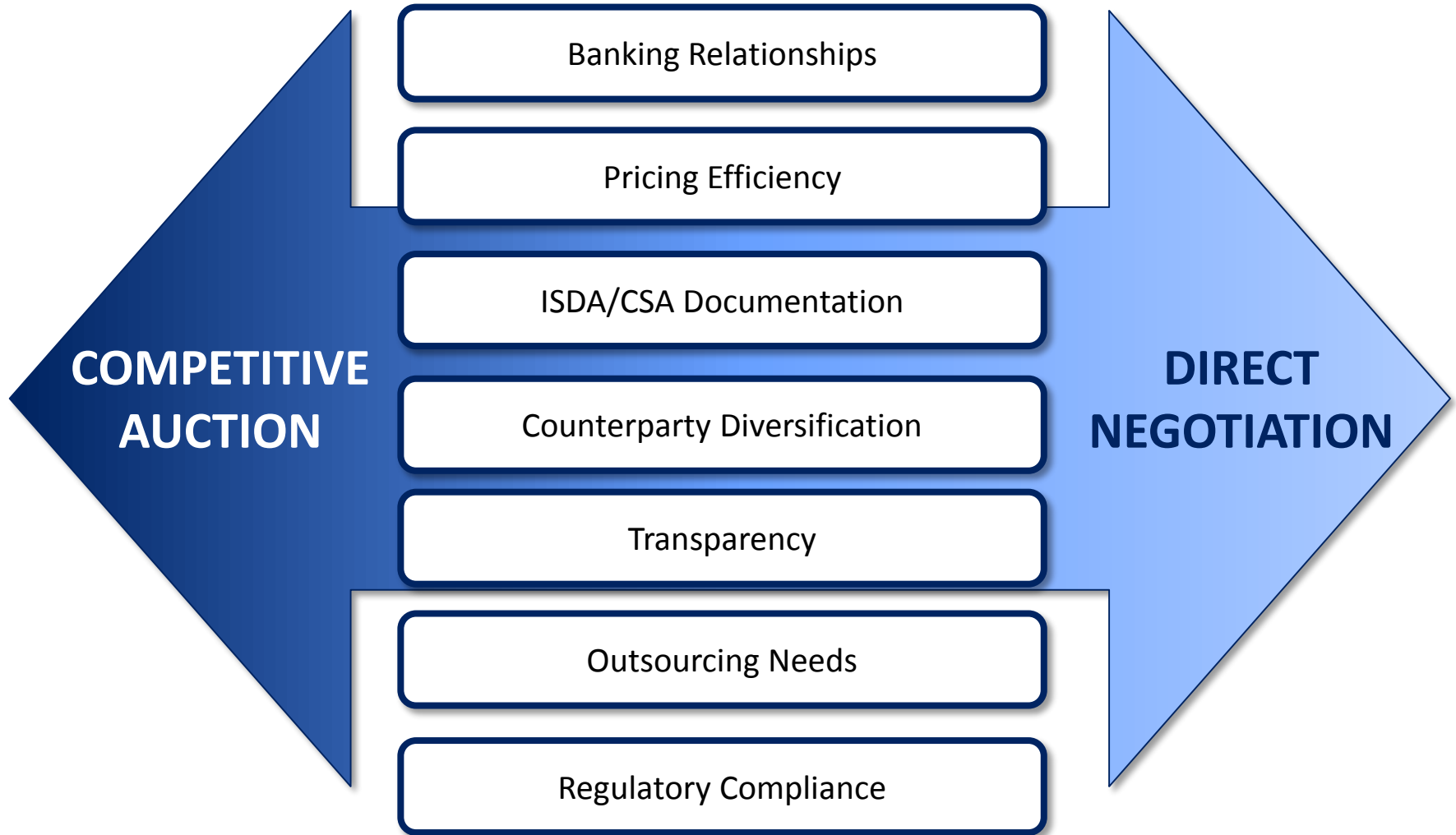
Execution Strategy



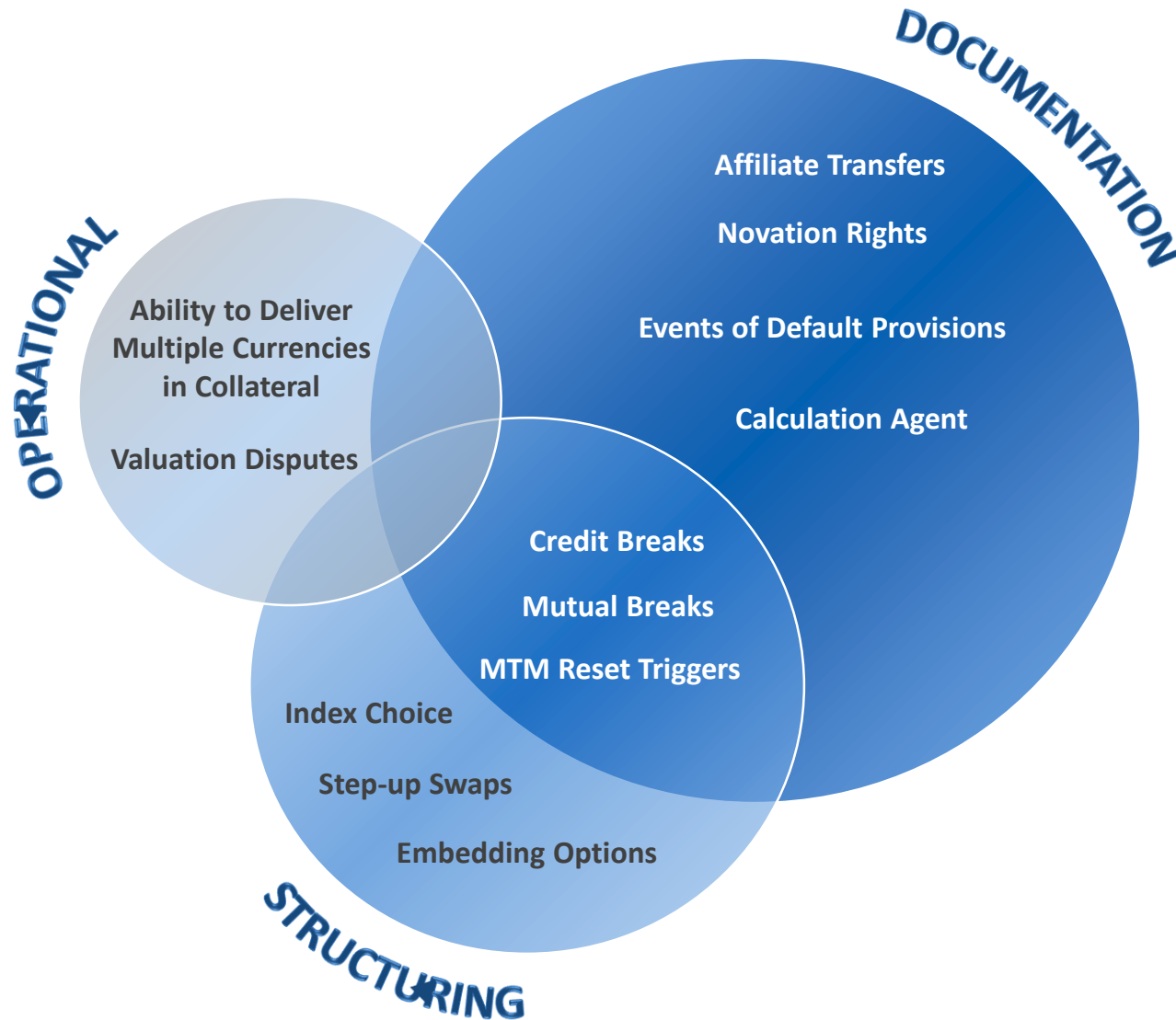
**Hedge Accounting and
Post-trade process**

Execution Strategies

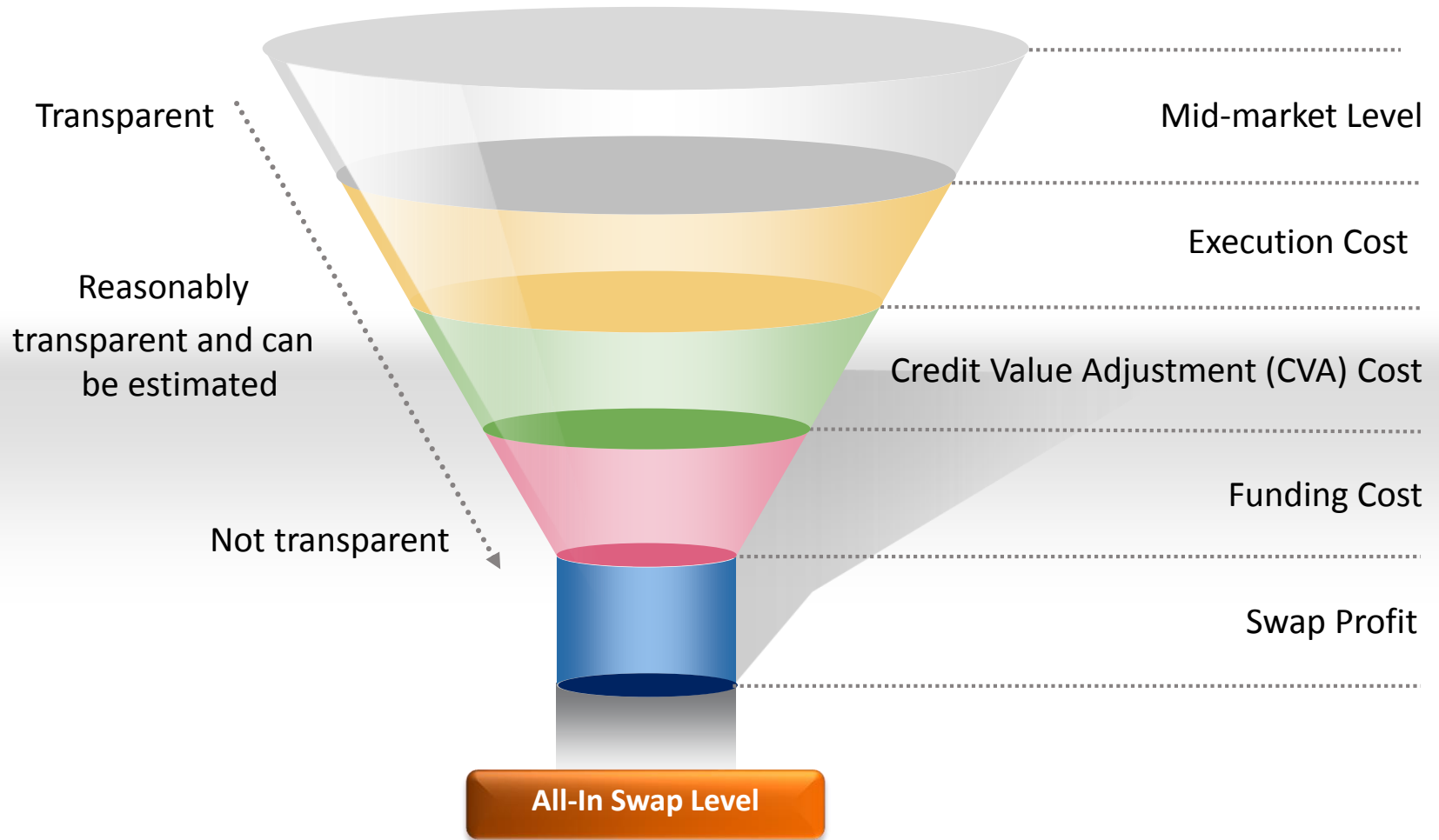
A spectrum of execution methods can be used to balance competing priorities



Documentation and Structuring Complexities



Swap Rate Components



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Belmond Case Study



Pre-deal Considerations



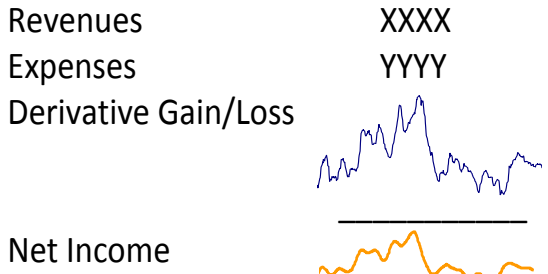
Execution Strategy



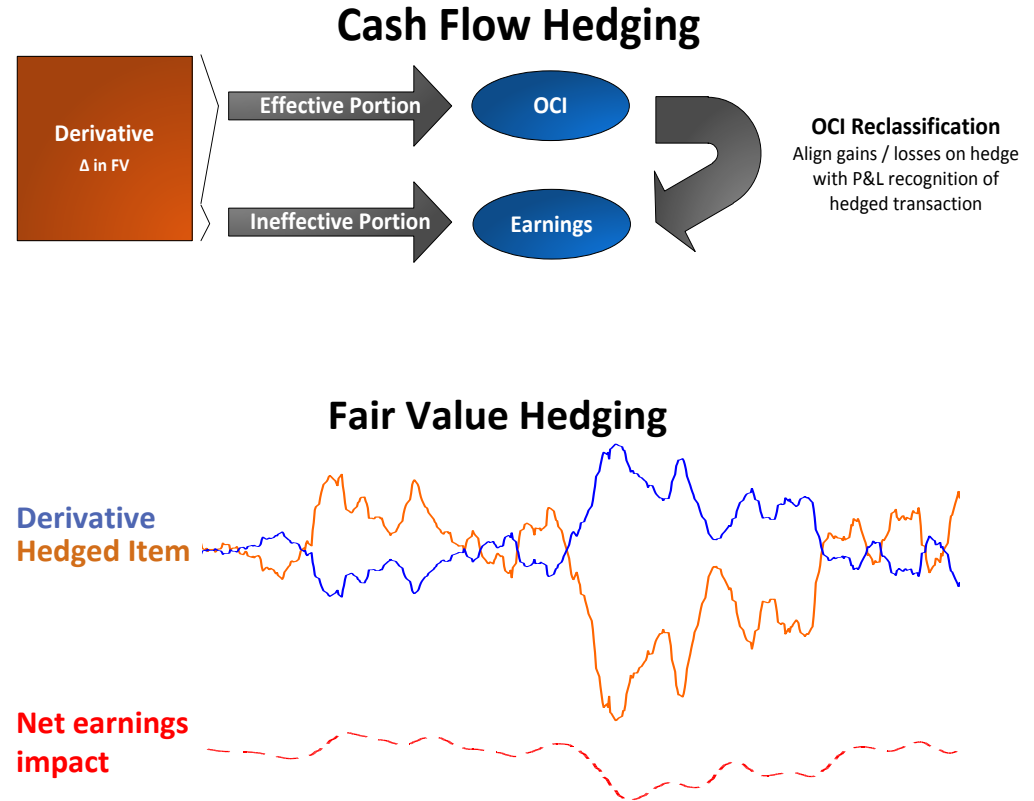
**Hedge Accounting and
Post-trade process**

Why apply Hedge Accounting?

Mark-to-market Earnings Presentation



Hedge Accounting Earnings Presentation

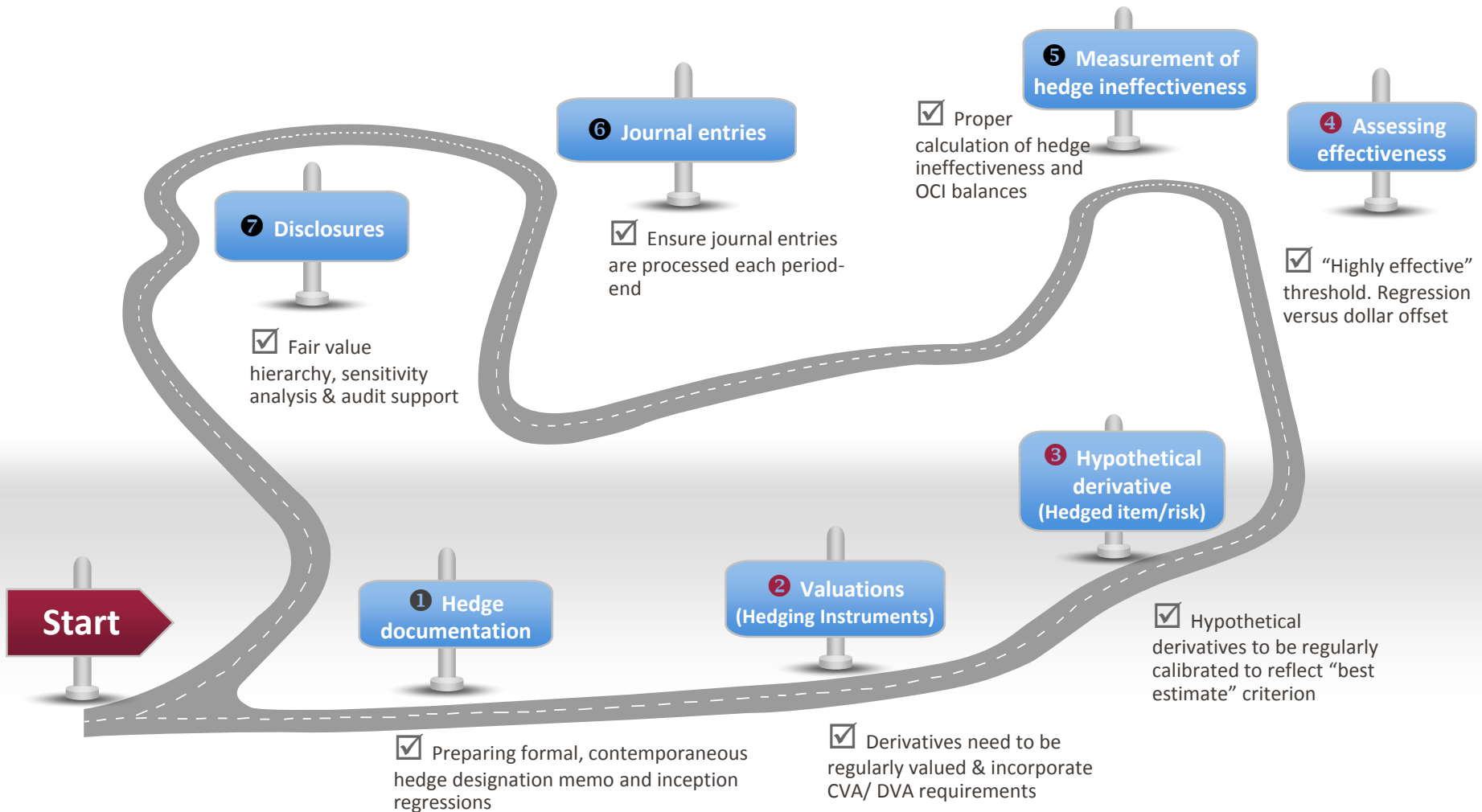


Accounting considerations for hedging alternatives

- One needs to assess whether the floor in the underlying loan should be accounted for separately as an “embedded derivative” at fair value resulting in **P&L volatility**.
- The presence of an embedded derivative could significantly alter the **hedging structure**. Rather than including the floor premium in the swap rate, the company may consider executing the swap and purchased floor as **2 separate instruments**.
- A float-to-fixed cross currency swap can be designated simultaneously in **multiple hedging relationships** (such as a net investment hedge and a cash flow hedge) and achieve good hedge accounting.

Hedge Accounting Requirements

A system might be needed to automate compliance with stringent criteria



Recap

- Hedge accounting
 - Accounting considerations often neglected during the pre-deal process which could limit accounting options post-deal
 - Implementing a hedge accounting program requires technology and know how
- Significant new changes in accounting standards
 - FRS 102 – New UK GAAP (derivatives to be now shown “on-balance sheet”)
 - IFRS 13 – Fair Value Measurement (requirement to consider counterparty credit risk in valuations)
 - IFRS 9 – Financial Instruments (replacement of IAS 39)

Thank you and questions!



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The panel

Chair

Martin O'Donovan

Policy & Technical Director

ACT

Speakers

George Karalis

Director, Corporate Financial Risk Management

Chatham Financial

Keith Reed

Group Treasurer

Belmond (UK)

Zwi Sacho

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Chair's closing remarks

Martin O'Donovan

Policy & Technical Director

ACT





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CONNECTING MINDS

FORTHCOMING EVENTS



ACT webinar: the impact of market structural reform

3 June 2014 | webinar

ACT webinar: effective credit risk pricing – the applications for treasurers

11 June 2014 | webinar

ACT breakfast briefing: supply chain finance – realising the potential

17 June 2014 | London

ACT Europe Conference

26 June 2014 | Düsseldorf

ACT Northern Conference

2 July 2014 | Leeds

ACT Middle East Annual Conference

27-28 October 2014 | Dubai


ACT Annual Dinner

12 November 2014 | London



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