

INTEREST RATE SWAP FACILITY

An Interest Rate Swap (IRS) is a form of financial derivative that enables a client to exchange a future stream of floating rate interest payments (normally benchmarked to the bank bill swap rate or BBSW) for a stream of fixed interest payments, or vice versa, based on a specified principal (face value) amount.

BENEFITS

The IRS product enables WATC's clients with debt facilities to modify the interest rate exposure of their debt portfolio without requiring termination and reissuance of physical loans, which was previously the case before the introduction of the IRS product.

The IRS product also enables WATC's clients to decouple the management of their debt maturity profile and interest rate exposure, thereby significantly enhancing flexibility in debt maturity diversification and interest rate risk management.

As an alternative to clients using private financial institutions to transact interest rate swaps on their behalf, WATC's clients have the opportunity to meet their IRS requirements with WATC and also take advantage of WATC's expertise in this field in both an advisory and transaction capacity.

Clients that use WATC's IRS product have the potential to realise considerable savings due to the economies of scale of WATC's operations and access to wholesale rates. This is possible as WATC regularly transacts interest rate swaps of significant value in managing the State's interest rate risk exposure as a whole, with the aggregate face value of active contracts being over \$10 billion.

The IRS product also has potential application in Public Private Partnership (PPP) projects as, whilst the private sector is still responsible for raising the necessary debt capital and assuming the associated risks, the State can potentially achieve lower service payments by accepting interest rate risk on debt proposals and hedging the exposure through WATC's client interest rate swap product.