

# Interest Rate Cap

## Product Information Statement

An Interest Rate Cap (Cap) is an agreement between you and Westpac (the Bank) where you, the buyer of the Cap, agrees to pay a Premium for the right to receive compensation if the applicable Reference Rate rises above a pre-agreed level.

Key Facts	
Eligibility	Wholesale client only
Minimum Transaction Amount	AUD 1,000,000
Term	1 Year to 20 Years
Currency	AUD
Coupon Payment Frequencies	Monthly, Quarterly, Semi-Annual

Issued by Westpac Banking Corporation  
Australian Financial Services Licence No. 233714  
ABN 33 007 457 141  
Dated: September 2015

 **Westpac**

**Institutional  
Bank**

# Interest Rate Cap

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## Description

- A Cap is a risk management tool that provides protection against rising interest rates, while maintaining the ability to participate in favourable movements.
- A Cap is an agreement between you (the buyer) and the Bank (the seller) to receive compensation should the Reference Rate move beyond an agreed level (the Strike Rate). For this right, you pay the seller an amount known as the Premium.
- You can tailor a Cap by selecting from a range of rollover frequencies, Terms, Strike Rate and Face Values over the Term. You can determine the Commencement Date of the Cap.
- The Cap can be Exercised (or converted) at the Cap Rate, on one, or a series or rollover or Reset Dates under the agreed Term. In return, the buyer may pay the seller a Premium unless otherwise agreed. Where there is a Premium, it can be paid upfront or amortised over the series of Reset Dates.
- A Cap is a hedging tool and not a lending facility.

## Suitability

- A Cap is suitable for clients whom are seeking to manage their cost of funding of their interest rate liability and have a good understanding of interest rate markets.
- If you are not confident about your understanding of these things, we strongly suggest you seek independent advice before making a decision about this product.
- A Cap may be suitable if you would like to change your interest rate exposure, based on your underlying liabilities, interest rate view, hedging and/or cash-flow requirements.
- A Cap should only be used where you have a genuine commercial need to manage interest rate risk. It should not be used for speculative purposes.

## Key Benefits

- **Flexibility** – You can tailor your Cap to your interest rate view, hedging and/or cash-flow requirements.
- **Certainty** – You can manage your interest rate exposure when you lock-in a Strike Rate as a hedge against your floating liabilities up to the pre-agreed Strike Rate

## Key Risks

- **Interest Rate Risk** – Interest rates may not move in line with your view. For example, you will be exposed to potential changes in the Floating Rate.
- **Early Termination/Variation** – You can vary or terminate a Cap early but there may be a cost if you do.
- **Counterparty and operational risk** – The Bank has performance obligations under a Cap. You need to form a judgement on our ability to meet those obligations.

## Costs

- **Premium** - While there are no fees and charges to enter into an interest rate cap, a non-refundable premium is payable.

## How does an Interest Rate Cap Work?

A Cap is an interest rate management tool that can be used in conjunction with any Floating Rate Bank Bill facility, including a Bank Bill facility with another lender. A Cap works separately to your underlying Bank Bill facility which is governed separately by the terms and conditions set out in your facility agreement. The Cap sets a worst case rate (known as the Strike Rate) that you are prepared to pay over the term of the Cap.

You will also set the Notional Amount (the amount on which payments are calculated) and agree to a schedule of Reset Dates. These are the dates that Bank Bill will be drawn or rolled under your underlying Floating Rate Bank Bill facility (for example, you could draw or roll bills approximately on a 30, 90 or 180 day basis).

The Reference Rate to be used is also set at the beginning of the transaction. The Reference Rate provides a benchmark interest rate. The Bank commonly uses the Bank Bill Swap Rate (BBSW) or the Bank Bill Swap Bid Rate (BBSY). These are market reference rates for Australian dollar bills of exchange for particular terms published on Reuters Information Service. (Reuters is an information service that is widely used by institutional market participants).

The Reference Rate is usually the same as the base rate applying to your underlying Bank Bill facility. The Reference Rate applies for set periods, called Calculation Periods.

On each Reset Date, The Bank will compensate you if the prevailing Reference Rate exceeds the Strike Price. The Bank will calculate the amount payable, using the formula shown in the example.

If the Reference Rate applying to a Calculation Period is more than the Strike Rate, then the Bank will pay you an amount based on the difference between those rates. When this amount is used to offset the higher interest rate applying to your underlying bill facility, your effective base interest rate for the Calculation Period becomes the Strike Rate (excluding any fees and margins payable under your bill facility).

If the Reference Rate for a Calculation Period is less than the Strike Rate, then The Bank will not pay you anything for that Calculation Period and the base interest rate applicable to your Floating Rate Bank Bill facility will be the rate applying under your bill facility agreement.

## Factors that determine the premium

To calculate the premium, we take several factors into account, including:

- The Notional amounts on each Reset Date;
- The Strike Rate;
- The Reset Dates;
- The Maturity Date;
- Current market interest rates; and
- Market volatility

### When do I pay the premium?

Premiums are usually paid with cleared funds within two business days of entering into the transaction.

With the Bank’s approval, the premium can be amortised over the term of the Cap. This may incur extra costs. The full amount of an amortised premium is always payable, even in the case of early termination.

You must apply to amortise any premium before entering into the transaction. The premium cannot be amortised over a period greater than the term of the Cap.

### Example

The example below is indicative only and uses rates and figures we have selected to demonstrate how the product works. In order to assess the merits of any particular Cap, you would need to use the actual rates and figures quoted to you at the relevant time. It should be noted that BBSW movements in the example have been exaggerated to give the effect to the example. Also note that the calculations below include rounding of decimal places.

### Scenario

You have a 3 year AUD \$1,000,000 Floating Rate Bank Bill facility with quarterly rollover dates. The base interest rate is BBSW.

Given the current economic environment, you decide interest rates look as though they will be rising and your cost of funds may exceed 3.00%. You would like to limit your cost of funds to a maximum rate of 3.00% for the term of the underlying Bank Bill facility.

### If I do nothing, what interest rate risk do I face?

If you do nothing, the interest rate you will pay on each rollover date will depend on what BBSW is at that time. You are exposed to unlimited risk if interest rates rise.

### How will a Cap change this?

Assuming you entered into a 3 year Cap with:

- A Strike Rate of 3.00%
- A Notional Amount of \$1,000,000.00
- Quarterly Reset Dates, and
- BBSW as the Reference Rate

In this example, it is assumed that you would pay the Bank a non-refundable premium for the Cap.

If BBSW is above 3.00% on a Reset Date, The Bank will compensate you for the difference between BBSW and the Strike Rate for the ensuing Calculation Period. For example, if BBSW is 3.50%, The Bank will compensate you on the basis of a difference of 0.50% for the Calculation Period.

As the amount of funds you will receive at drawdown on your Floating Rate Bank Bill facility is calculated on a discounted (to the Notional Amount) or Bank Bills basis, the same method is used to calculate the amount payable under the Cap. If you prefer, a simple interest in arrears methodology can be used for calculation purposes.

The Bank uses the following formula to determine any amount payable:

$$\text{Notional Amount} \times 36500 \times \left[ \frac{1}{36500 + (R1 \times ND)} - \frac{1}{36500 + (R2 \times ND)} \right]$$

Where:

R1 = the Reference Rate

R2 = the Strike Rate

ND = the actual number of days in the Calculation Period.

For explanation purposes only, a simple way to calculate the amount payable (and achieve the same result as the above formula), is to look at the discounted amount payable at the Reference Rate and the discounted amount payable at the Strike Rate. The difference between these amounts (if any) is the amount payable. Using the figures in the example, this is calculated as follows:

Amount Payable at Reference Rate:

$$\frac{\$1,000,000.00 \times 36500}{(3.50\% \times 90) + 36500} = \$991,443.71$$

Amount Payable at Strike Rate:

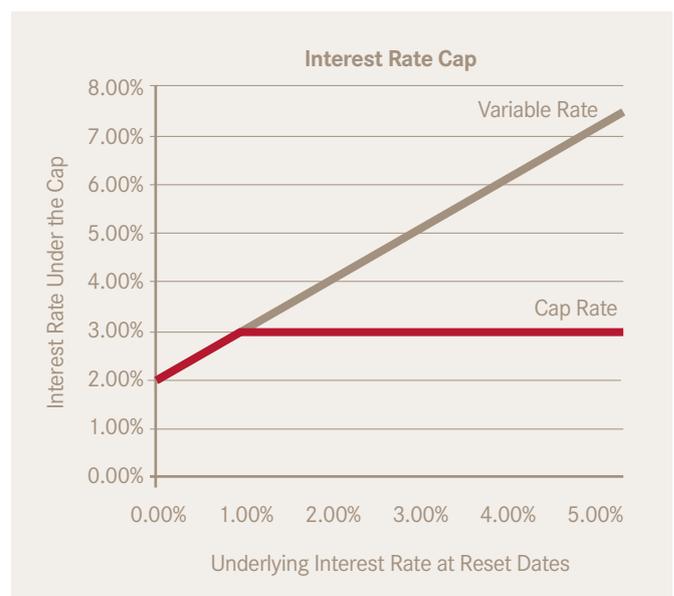
$$\frac{\$1,000,000.00 \times 36500}{(3.00\% \times 90) + 36500} = \$992,657.06$$

The payment the Bank makes to you is the difference between the above amounts, that is:

$$= \$992,657.06 - \$991,443.71 = \$1,213.35$$

### Pay-off chart

The chart below illustrates the potential outcomes under the Term of the Cap and for that reason is often called a ‘pay-off diagram’. As can be seen from the chart below, The Bank will provide compensation where the interest rate is above 3.00%, such that 3.00% is the highest base interest rate that you will be exposed to. If, on the Reset Date, BBSW is below the 3.00%, then nothing is payable under the Cap and no settlement takes place.



## Early Termination/Variation

You can terminate or vary your Cap early but there will be a cost to you resulting in a possible early termination or variation payment. You may, however, realise a net benefit depending on the prevailing market conditions upon variation or early termination. Any outstanding premiums due under the Cap that are still payable to the Bank are to be paid at the termination date. With these risks in mind, please consider your circumstances carefully when selecting the terms of your Cap.

## Documentation

You will be required to sign a standard master dealing agreement. The Bank commonly uses either an International Swaps and Derivatives Association ('ISDA') Master Agreement to document interest rate transactions or a Master Agreement for Derivative Transactions. This standard master dealing agreement will govern your trading relationship with us. In particular, it documents the situations in which transactions can be terminated and the way the amount payable following termination is calculated.

You will be provided with a copy of the relevant master dealing agreement and we strongly recommend that you fully consider the terms prior to entering into any transaction. You should obtain independent legal advice if you do not understand any aspect of it.

## Credit Approval

Before entering into any Cap, the Bank will assess your financial position to determine whether or not your situation satisfies our normal credit requirements. The Bank will advise you of the outcome of its review as soon as possible.

## Confirmation

Shortly after entering into a Cap, the Bank will send you a Confirmation outlining the commercial terms of the transaction, including:

- The Notional Amount of your Cap;
- The Commencement Date;
- The Maturity Date;
- The Fixed Rate;
- The Reference Rate;
- Whether you are a Payer or Receiver;
- The Reset and Payment Dates; and
- The variation (if any) of the Notional Amount during the Term.

It is extremely important that you check the Confirmation to make sure that it accurately records the terms of the transaction. 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 representative as a matter of urgency.

## Privacy

We collect personal information from you to process your application, provide you with your product or service, and manage your product or service. We may also use your information to comply with legislative or regulatory requirements in any jurisdiction, prevent fraud, crime or other activity that may cause harm in relation to our products or services and help us run our business. We may also use your information to tell you about products or services we think may interest you.

If you do not provide all the information we request, we may need to reject your application or we may no longer be able to provide a product or service to you.

We may disclose your personal information to other members of the Westpac Group, anyone we engage to do something on our behalf and other organisations that assist us with our business.

We may disclose your personal information to an entity which is located outside Australia. Details of the countries where the overseas recipients are likely to be located are in our privacy policy.

As a provider of financial services, we have obligations to disclose some personal information to government agencies and regulators in Australia, and in some cases offshore. We are not able to ensure that foreign government agencies or regulators will comply with Australian privacy laws, although they may have their own privacy laws. By using our products or services, you consent to these disclosures.

We are required or authorised to collect personal information from you by certain laws. Details of these laws are in our privacy policy.

Our privacy policy is available at [www.westpac.com.au](http://www.westpac.com.au) or by calling 132 032.

It covers:

- how you can access the personal information we hold about you and ask for it to be corrected;
- how you may complain about a breach of the Australian Privacy Principles or a registered privacy code and how we will deal with your complaint; and
- how we collect, hold, use and disclose your personal information in more detail.

We will update our privacy policy from time to time.

We will use your personal information to contact you or send you information about other products and services offered by the Bank or its preferred suppliers. Please call us on 132 032 or visit any of our branches if you do not wish to receive marketing communications from us.

In addition to our duties under legislation, we have a general duty of confidentiality towards you, except where disclosure is made in a manner consistent with this Product Information Sheet.

## Code of Banking Practice

The relevant provisions of the Code of Banking Practice 2004 ('Code') apply if you are an individual or a small business as defined in the Code. It's our commitment to make all the details about your banking as clear as we possibly can.

## Financial Crimes Monitoring

You should be aware that:

- transactions may be delayed, blocked or refused where the Bank has reasonable grounds to believe that they breach Australian law or the law of any other country; and
- where transactions are delayed, blocked, frozen or refused, the Bank is not liable for any loss you may suffer (including consequential loss).

The Bank is bound by laws that impose regulatory and compliance obligations, including obligations in relation to the prevention of money laundering and the financing of terrorism, under the Anti-Money Laundering and Counter Terrorism Financing Act 2006 (AML/CTF Laws).

In order for the Bank to meet its regulatory and compliance obligations, we perform certain control and monitoring activities.

Upon entering into a Cap with the Bank, you agree and provide the following undertakings and agree to indemnify the Bank against any potential loss arising from any breach by you of such undertakings that:

- you are not and will not enter into any agreement with the Bank under an assumed name;
- any funds used by you to enter into an agreement with the Bank have not been derived from or related to any criminal activities;
- any payments received from the Bank will not be used in relation to any criminal activities;
- if we ask, you will provide us with additional information we reasonably require from you for the purposes of meeting our regulatory and compliance obligations, including the obligations under AML/CTF Laws (including information about the source of funds used to settle a Cap); and
- you and your Cap with the Bank will not initiate, engage or effect a transaction that may be in breach of Australian law or sanctions (or the law or sanctions of any other country).

You should be aware that:

- we may obtain information about you or any beneficial owner of an interest in an agreement
- with the Bank from third parties if we believe this is necessary to comply with our regulatory and compliance obligations, including the AML/CTF Laws;
- transactions may be delayed, blocked, frozen or refused where we have reasonable grounds to believe that they breach Australian law or sanctions or the law or sanctions of any other country;
- where transactions are delayed, blocked, frozen or refused, the Bank and other members of the Westpac Group are not liable for any loss you suffer (including consequential loss) in connection with a Cap); and
- where legally obliged to do so, we will disclose the information gathered to regulatory and/or law enforcement agencies and we may also disclose the information gathered to other banks, other members of the Westpac Group, service providers or to other third parties.

### Our reporting obligations under FATCA

We are required to identify certain US persons in order to meet account information reporting requirements under local and international laws.

If you or (where you are an entity) any office bearer (director of a company, partner in a partnership, trustee of a trust, chairman, secretary or treasurer of an association or co-operative) of the entity and/or any individual who holds an interest in the entity of more than 25% (a **Controlling Person**) are a US citizen or US tax resident, you must telephone us on 1300 658 194 at the time of entering into a Cap. When you contact us you will be asked to provide additional information about your US tax status and/or the US tax status of any Controlling Person which will constitute certification of US tax status for the purposes of the application to which the Cap relates.

Unless you notify us that you and/or any Controlling Person are a US citizen or US tax resident as specified above, entering into a Cap with us constitutes certification that you and/or any Controlling Person are not a US citizen or US tax resident.

If at any time after entering into a Cap information in our possession suggests that you and/or any Controlling Person may be a US citizen or US tax resident, you may be contacted to provide further information on your US tax status and/or the US tax status of any Controlling Person. Failure to respond may lead to certain reporting requirements applying to the Cap.

### Telephone Conversations

The terms of a Cap are usually agreed verbally over the phone or electronically over an on-line system. Once we have reached an agreement, both you and the Bank are bound by the terms of the Cap.

Conversations with our dealing room and settlements departments are recorded. This is standard market practice. We do this to make sure that we have complete records of the details of all transactions. Recorded conversations are retained for a limited period and are usually used where there is a dispute and for staff training and monitoring purposes.

You will need to advise our dealer if you do not wish to be recorded. However, we will not enter into any transaction over the telephone unless the conversation is recorded.

### Dispute Resolution

Sometimes you may want to talk about problems you are having with us. Fixing these problems is very important to us.

We've put in place ways of dealing with your issues quickly and fairly.

### Please talk to us first

We aim to resolve your complaint at your first point of contact with us. Our contact details are set below:

### Interest Rate Pricing and Structuring Desk

Address: Level 2, 275 Kent St  
Sydney NSW 2000

Phone: (02) 8204 2821

Email: [cmmirsales@westpac.com.au](mailto:cmmirsales@westpac.com.au)

### What to do if you are still unhappy

If we still haven't been able to deal with your issues to your satisfaction, there are a number of other bodies you can go to. Our external dispute resolution provider is the Financial Ombudsman Service, our membership number is 10999 and the contact details are:

### Financial Ombudsman Service Limited

Address: GPO Box 3  
Melbourne VIC 3001

Phone: 1800 367 287

Fax: (03) 9613 6399

Internet: [www.fos.org.au](http://www.fos.org.au)

Email: [info@fos.org.au](mailto:info@fos.org.au)

You can also contact the Australian Securities & Investments Commission (ASIC) to make a complaint and to obtain further information about your rights.

They have a freecall Infoline on 1300 300 630 or visit [www.asic.gov.au](http://www.asic.gov.au)

## Glossary

**Bank** refers to Westpac Banking Corporation ABN 33 007 457 141 Australian Financial Services Licence No. 233714, and includes references to 'we', 'our' and 'us' and means Westpac and its related bodies corporate.

**Bank Bill** is a Bill of Exchange as defined in the Bills of Exchange Act 1909 (Commonwealth) which is, or is taken to be, accepted under a Bank Bill facility (whether or not it physically exists).

**BBSW** means the Australian Bank Bill Swap Rate, being the average mid-rate for Australian Dollar bills of exchanges having various tenors which appear on the Reuters Screen BBSW Page at approximately 10:10am Sydney time on the relevant Payment Date. If such a rate does not appear, then a rate will be determined by the Bank, acting in good faith and in a commercially reasonable manner. You can see the current BBSW in the Market Data section of the website of the Australian Financial Markets Association located at [www.afma.com.au](http://www.afma.com.au).

**BBSY** means the Australian Bank Bill Swap Bid Rate, being the average bid rate for Australian Dollar bills of exchange having various tenors which appear on the Reuters Screen BBSY Page at approximately 10:10am Sydney time on the relevant Payment Date. If such a rate does not appear, then a rate will be determined by the Bank, acting in good faith and in a commercially reasonable manner. You can see the current BBSW in the Market Data section of the website of the Australian Financial Markets Association located at [www.afma.com.au](http://www.afma.com.au).

**Calculation Period** refers to the number of days in the relevant period from one Reset Date until the next Reset Date.

**Commencement Date** means the date on which your Cap commences. This will be referred to as the 'Effective Date' in your confirmation.

**Confirmation** means the document issued to you by the Bank following receipt (and subject to acceptance) of your completed Documentation and Credit approval.

**Coupon Payment** means the net payment made on each Payment Date in respect of the Notional Amount. Designated Maturity refers to the designated term the Reference Rate used in your Cap.

**Fixed Rate** means the fixed interest rate applying to your Notional Amount during the Term.

**Floating Rate** means the floating or variable interest rate applying to your Notional Amount during the Term, expressed as a percentage and based on the Reference Rate.

**Floating Rate Option** means the ISDA term for either BBSW or BBSY.

**ISDA** stands for International Swaps and Derivatives Association and is a shorthand reference to the ISDA Master Agreement, one of the two standard master dealing agreements used to document your Cap.

**Master Agreement** means the Master Agreement for Derivative Transactions, one of the two standard agreements used to document your Cap.

**Maturity Date** means the date on which your Cap expires. This will be referred to as the Termination Date in your Confirmation.

**Notional Amount** means the amount left at the beginning of each coupon period during the Term and on which the Fixed Rate Coupon Payments and Floating Rate Coupon Payments are calculated. The Notional Amount does not have to be a fixed amount for the full Term, it can vary over the Term.

**Payer** refers to the payer of the Fixed Rate.

**Payment Date** refers to each date on which a Coupon Payment will be made by us in respect of your Notional Amount. The specific Payment Dates applying to your Cap will be specified in your Confirmation. If a Payment Date does not fall on a business day, the payment will be processed on the following business day.

**PIS** means Product Information Statement.

**Receiver** refers to the receiver of the Fixed Rate.

**Reference Rate** means the Australian Bank Bill Swap Rate with a Designated Maturity of one month (1m BBSW), three month (3m BBSW) or six months (6m BBSW), or the Australian Bank Bill Swap Bid Rate with a Designated Maturity of one month (1m BBSY), three months (3m BBSY) or six months (6m BBSY).

**Reset Date** refers to each date on which the Floating Rate is set. The Specific Reset Dates applying to your Cap will be specified in your Confirmation. If a Reset Date does not fall on a business day, the Floating Rate will be set on the following business day.

**Strike Rate** refers to the maximum effective interest rate expressed as a percentage p.a. payable under the Cap.

**Term** means the period between the Commencement Date and the Maturity Date.

**Transaction date** means the original date that the contract is agreed.

