

# PRODUCT DISCLOSURE STATEMENT

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This product disclosure statement only highlights the key features and risks of this OTC derivative product (the “Product Disclosure Statement”). Counterparties/Users are advised to request, read and understand the Product Disclosure Statement and all other disclosure documents before deciding to transact.

## Swaption

Date : [26 September 2024]

### STATEMENT OF DISCLAIMER

The Product Disclosure Statement in relation to this Swaption (the “Transaction”), includes only indicative terms, conditions and risks (including all indications as to costs, returns and cash flows) associated with the Transaction and although the information set forth below is reflective of the terms, conditions and risks as of a specified date, and is based on current assumptions and market conditions under which JPMorgan believes the Transaction can be carried out, no assurance can be given by JPMorgan that the Transaction could in fact be executed and JPMorgan is not obliged to enter into the Transaction. Information herein is believed to be reliable but JPMorgan does not warrant its completeness or accuracy. This should also not be taken to indicate that JPMorgan recommends the Transaction. Opinions and estimates constitute JPMorgan’s judgment and are subject to change without notice. Examples shared are for illustrative purposes only and any past performance is not indicative of future results. Counterparty/User is advised to make an independent review and reach its own conclusion and judgment regarding whether the Transaction is appropriate and proper for it. Counterparty/User needs to consult its own advisors regarding the legal, credit, tax, accounting or any other aspects including suitability implications of the Transaction for its own particular circumstances. This Product Disclosure Statement is not intended as an offer or solicitation for the purchase or sale of any financial instrument. This Product Disclosure Statement has been prepared by JPMorgan Sales and Trading personnel and is not the product of JPMorgan’s Research Department. It is not a research report and is not intended as such. JPMorgan or a company or person connected or associated with it may be an underwriter or distributor of, or a market maker or otherwise hold a long or short position as a principal in, a security or financial instrument (or in options, futures, or other derivative instrument related thereto) connected with the Transaction described in this Product Disclosure Statement. JPMorgan is the marketing name for J.P. Morgan Chase & Co. and its subsidiaries and affiliates worldwide. Client should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This Product Disclosure Statement is provided on a confidential basis and may not be reproduced, redistributed or transmitted, in whole or in part, without the prior written consent of JPMorgan. Any unauthorized use is strictly prohibited.

#### 1. What are the features of this product?

A Swaption is an interest rate linked over-the-counter (“OTC”) derivative product (the “Transaction”) which provides one of the parties a one-time right to enter into a spot starting interest rate swap (“underlying swap”). A vanilla Swaption has a single exercise date, from which the Swaption owner has a one-time right. After exercise of right, the user is obligated to exchange

the cash flows of the underlying swap which can be an interest rate swap or a cross currency swap ("CCS")

A Swaption is a combination of an underlying swap (single currency swap or cross currency swap) and an Option which can be held by either of the parties to the Transaction. The optionality is the right to enter into the swap with predetermined interest rate terms (i.e. Fixed Interest Rate, Floating rate spread etc.) on a chosen specified date without any Mark-To-Market settlement.

Upon purchase, the user usually pays the premium upfront.

The user is relying on the creditworthiness of the market maker. On the Settlement Date, the contractual Settlement Payments shall take place between user and the market maker, provided that the market maker is solvent.

The market maker, JPMorgan Chase Bank, Mumbai branch, is a financial institution licensed by Reserve Bank of India.

## Variation:

- **Buy Receiver Swaption:** Swaption buyer (user) has the right to enter into the underlying IRS on an Exercise Date, where the buyer Receives Fixed Rate interest p.a, on Notional Amount and pays Floating Rate Option + Spread p.a., on Notional Amount.
- **Buy Payer Swaption:** Swaption buyer (user) has the right to enter into the underlying IRS on an Exercise Date, where the buyer pays Fixed Rate interest p.a, on Notional Amount and receives Floating Rate Option + Spread p.a., on Notional Amount.
- **Exercise Type:** European
- **Settlement Type:** Cash, Physical.
- For Cash Settled Swaption, there are 2 methodologies
  - **Cash price:** An amount determined with respect to the underlying interest rate swap in accordance with the early termination provisions of the ISDA Master Agreement between the two parties.
  - **Collateralized cash price:** An amount calculated as the present value of an annuity, equal to the difference between the amounts that would be payable by the fixed-rate payer under the underlying interest rate swap and the amounts that would be payable by such fixed-rate payer if the fixed rate were the settlement rate (under "Collateralized Cash Price" the settlement rate is the relevant market swap rate level observation).

## 2. Contract terms and conditions

### General Terms

Party A	JPMorgan Chase Bank, Mumbai Branch
Party B	User
Seller:	[Party A]
Buyer:	[Party B]

# PRODUCT DISCLOSURE STATEMENT

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**Notional Amount:** [ ]

**Option Style:** [European ]

**Trade Date:** [ ]

**Effective Date:** [ ]

**Exercise Date(s):** [ ]

**Business Days:** [ ]

**Calculation Agent:** Party A

**Business Day Convention:** [ ]

**Governing Law:** English

**Documentation:** ISDA

**Premium:** [ ], shall pay to [ ], and amount in USD [ ] to be settled on the  
Premium Payment date

**Premium Payment Date:** Same as the Effective Date

**Buyer Option:** [ ] has a one-time right but not the obligation to enter into the  
Underlying Swap Transaction, on [ ] of each year commencing  
from and including [ ] to and including [ ], subject to adjustment  
in accordance with the Modified Following Business Day  
Convention by giving to Party B at least [ ] Business Days prior  
written notice, which may but is not limited to electronic mail  
(email).

## **Settlement Terms**

**Settlement:** [Physical/Cash]

**Cash Settlement Method:** [ ]

**Cash Settlement Valuation Date:** Same as Expiration Date

**Cash Settlement Valuation Time:** [ ]

**Valuation Business Days:** [ ]

**Cash Settlement Currency:** [ ]

**Cash Settlement Payment Date:** [ ], subject to adjustment in accordance with the Business Day  
Convention

**Settlement Rate:** As determined by the Calculation Agent in good faith and in a  
commercially reasonable manner

# PRODUCT DISCLOSURE STATEMENT

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Quotation Rate: Mid

## **Underlying Swap Transaction (for a Receiver Swaption)**

Notional Amount: USD [ ]

Effective Date: [ ]

Termination Date: [ ], subject to adjustment in accordance with the Business Day Convention

Business Day Convention: Modified Following

## **Fixed Amounts**

Fixed Rate Payer: Seller

Fixed Rate Payer Payment Dates: On every [ ] of each year, from and including [ ] to and including the Termination Date, subject to adjustment in accordance with the Business Day Convention

Fixed Rate: [ ] % per annum

Fixed Rate Day Count Fraction: [ ]

## **Floating Amounts**

Floating Rate Payer: Buyer

Floating Rate Payer Payment Dates: On every [ ] of each year, from and including [ ] to and including the Termination Date, subject to adjustment in accordance with the Business Day Convention

Floating Rate Option: **Floating Rate (L)% p.a.**

Designated Maturity: [ ]

Spread: **Spread(S)% p.a.**

Floating Rate Day Count Fraction: [ ]

Reset Dates: [ ]

Compounding: Inapplicable

Calculation Agent: JPMorgan

Documentation: The Transaction will governed by and subject to the ISDA Master Agreement (including the Schedule, any Credit Support Annex, individual Confirmation for this Transaction and any amendments to the foregoing documents) executed between Party A and Party B (the "**ISDA**").

### **3. What are the benefits of this product for the user/Party B?**

Swaptions have considerable risks and benefits being associated to it. These structures give the buyer the right to enter into a Swap. Swaptions can be used to hedge the same interest rate exposure that the underlying swap can be used to hedge but provides the buyer the flexibility to participate in favorable market levels at the Exercise Date.

Swaptions are also instrumental for users with large interest rate portfolios to hedge interest rate volatility and delta risk (change in value of the portfolio in relation to the change in underlying interest rates)

### **4. What are the risks involved?**

There are risks associated with this Transaction including, but not limited to, foreign exchange risk, interest rate risk, price risk, liquidity risk and credit risk. Users should consult their own financial, legal, accounting, and tax advisors about the risk associated with this Transaction, the appropriate tools to analyze the Transaction, and the suitability of the Transaction in each user's particular circumstances. No user should enter into the Transaction described above unless that user understands and has sufficient financial resources to bear the price, foreign exchange, market, liquidity, structure, and other risks associated with the Transaction.

#### **Interest Rate Risk:**

This Transaction is exposed to movements in interest rates. If interest rates move from their current position, there is a risk that Party B will pay more than it receives in comparison to the then current interest rates available in the market for such interest rates.

If USD interest rates increase (decrease) and as a result the reference rate is higher (lower) than the Receiver Swaption strike rate (Payer Swaption strike rate) on the Exercise Dates, the user may not exercise the option to enter into the swap and the user shall lose the Premium paid to Party A on the Premium Payment Date.

#### **Volatility Risk:**

This Transaction is exposed to movements in interest rate volatility. If volatility of interest rates changes, the mark-to-market value of the Transaction for Party B may decrease.

#### **Liquidity Risk:**

This Transaction is not a readily liquid instrument. There may exist a time when there is a lack of liquidity or low trading volume in the market for the Transaction, and this potential illiquidity could significantly decrease the market value of the Transaction for Party B.

#### **Asymmetric Payoff Risk:**

The potential downside resulting from the Transaction could be significantly higher than the potential upside. Party B should be aware of and recognize the asymmetric nature of what it may receive and/or what it may pay before entering into this Transaction.

## Credit Risk:

This transaction carries the credit risk of the market-maker i.e. Party A. Party B is exposed to the credit risk of Party A when Party A owes the Cash Settlement Amount to Party B.

## 5. How does the payoff profile look like?

### Physical Settled:

Receiver Swaption	<p>If Party B exercises Buy Option, On Each Fixed Rate Payment Date</p> <p>Party B Receives Amount = Notional x Fixed Rate DCF x Fixed Rate</p> <p>Else, No Settlement</p>	<p>If Party B exercises Buy Option, On Each Floating Rate Payment Date</p> <p>Party B Pays Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing</p> <p>Else, No Settlement</p>
Payer Swaption	<p>If Party B exercises Buy Option, On Each Floating Rate Payment Date of the Underlying Swap:</p> <p>Party B Receives Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing</p> <p>Else, No Settlement</p>	<p>If Party B exercises Buy Option, On Each Floating Rate Payment Date of the Underlying Swap:</p> <p>Party B Pays Amount = Notional x Fixed Rate DCF x Fixed Rate</p> <p>Else, No Settlement</p>

### Cash Settled:

Cash Price	Party B receives Max (Underlying Swap MTM, 0)
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	Where, underlying swap MTM is calculated as per early termination provisions of the ISDA Master Agreement between Party A and Party B.
Cash Collateral Price	<p>Party B receives Max [ Present Value or (Fixed Rate – Market Swap Rate for underlying swap on Exercise Date), 0],</p> <p>Where the Present value calculation follows the norms set out in ISDA Master Agreement, specifically as per ISDA Collateral Cash Price Matrix</p>

#### 6. What are the fees and charges the user will have to pay?

Unless stated otherwise in the termsheet or trade confirmation of the Transaction agreed with the user, the price that Party A quotes to its users is inclusive of any charges, costs etc. that Party A needs to bear in order to offer the Transaction to the user.

#### 7. How often are valuation statements will be available for user/Party B?

Valuation statements in relation to all Transactions executed between parties, which is updated on daily basis, will be made available to Party B on the “Optimize” application present on Party A’s online platform, J.P.Morgan Markets (“Optimize Platform”). Party B will be able to view and download such valuation statements from the Optimize Platform for a specific period of time as notified by Party A, from time to time. To the extent Party B wishes to receive any particular valuation statement via email or any other mode of communication, it should reach out to its representative at Party A and make a request in writing to receive such valuation statement via email or any other mode of communication as agreed between the parties. Party A shall consider Party B’s request and if reasonable and operationally practicable, it will share the particular valuation statement requested via email or any alternative mode of communication with Party B.

#### 8. How can the user/Party B exit from this Transaction and what are the costs involved?

Similar to any OTC derivative transaction in case Party B wishes to terminate this Transaction, either in part or in full, prior to the scheduled termination date on any business day, Party B can request Party A to provide an early termination quote, which shall take into account the mid mark to market value of this Transaction from Party A’s perspective minus applicable costs which include without limitation, unwind cost, hedging cost, cost of funding, and/or other expenses.

Early termination quote will take into account, among other factors, prevailing market rates, liquidity, price factors, Party A’s hedging obligations and such other factors deemed relevant by Calculation Agent in its sole and absolute discretion.

Party B shall communicate to Party A whether they would like to proceed with the early termination/unwind and that early termination quote is accepted by Party B.

- a. If the early termination quote is greater than zero, Party B shall pay such amount to Party A.
- b. Else, Party A shall pay to counterparty the absolute value of the early termination quote.

# PRODUCT DISCLOSURE STATEMENT

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For avoidance of doubt, upon the payment of early termination quote, this Transaction shall terminate and no further amounts payable by either parties.