

# Interest Rate Caps, Floors & Collars.

## Product Information Statement.

Issued by BankSA – A Division of Westpac Banking Corporation ABN 33 007 457 141  
Australian Financial Services Licence and Australian Credit Licence No. 233714.

**Effective date: 31 May 2023**

## You've got questions? We've got time to talk.

For more information, please contact our team of interest rate specialists below.

### Interest Rate Hub



**(02) 8253 4463**



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### Accessibility support.

At any time, you can inform us how you would prefer to be contacted. If you are deaf and/or find it hard hearing or speaking with people who use a phone, you can reach us through the National Relay Service (NRS). To use the NRS you can register by visiting **[infrastructure.gov.au/national-relay-service](https://infrastructure.gov.au/national-relay-service)**

Visit **[banksa.com.au/accessibility](https://banksa.com.au/accessibility)** for further information on our accessible products and services for people with disability.

## Important information.

A Product Information Statement (**PIS**) is an information document. The purpose of a PIS is to provide you with information intended to assist you in making a decision about a product's suitability for your needs. A PIS is also a tool for comparing the features of other products you may be considering. If you have any questions about this product, please contact us on the details provided above.

You should read and consider this PIS, in its entirety, carefully and seek independent expert advice before making a decision about whether or not this product is suitable for you.

If you decide to enter into an Interest Rate Cap, Floor or Collar, you should keep a copy of this PIS and any associated documentation. You should also promptly tell us if at any time you experience financial difficulties.

This PIS is issued by us and is current as at the date of this document. The information in it is subject to change. We may issue a replacement PIS, or post updated information on our website.

Nothing in this PIS is, or may be relied upon as, a representation as to the future performance of the Interest Rate Cap, Floor or Collar.

The offer of the Interest Rate Cap, Floor or Collar is being made to persons located in Australia only. Receipt of this PIS in jurisdictions outside of Australia may be restricted by local law and applications from outside Australia will not be accepted.

The information set out in this document is general in nature. It has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. By providing this PIS, we do not intend to provide financial advice or any lending recommendations.

An Interest Rate Cap (Cap) is an agreement between you and us where the buyer of the Cap, agrees to pay a premium to the seller, for the right to receive compensation if the applicable Reference Rate rises above a pre-agreed level. An Interest Rate Floor (Floor) is an agreement between you and us, where the buyer of the Floor agrees to pay a premium to the seller, for the right to receive compensation if the applicable Reference Rate falls below a pre-agreed level.

Key Facts	
Eligibility	Wholesale client only
Minimum Transaction Amount	AUD \$1,000,000 notional
Term	1 Year to 10 Years
Currency	AUD
Payment Frequencies	Monthly, Quarterly, Semi-Annual

## Description.

- Caps and Floors work in conjunction with a Variable Rate underlying lending facility.
- A Floor can be used in conjunction with a Cap to form a Collar or can be used to protect against falling (or even potentially negative) interest rates.
- 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 the buyer and the seller where the seller pays the buyer if the Reference Rate moves above an agreed level (known as the Strike Rate). For this right, the buyer pays the seller an amount known as the premium.
- You can tailor a Cap or Floor by selecting from a range of rollover frequencies, Terms, Strike Rates and face values over the Term. You can determine the Commencement Date of the Cap or Floor.
- The Cap or Floor can be Exercised (or converted) at the Cap or Floor Rate, on one, or a series of rollover or Reset Dates under the agreed Term. In return, the buyer pays the seller a premium.
- Caps and Floors are not lending facilities.

## Suitability.

- A Cap or Floor may be suitable for clients who are seeking to manage the cost of their interest rate liability based on their underlying interest rate view and hedging and/or cash-flow requirements.
- 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 or Floor 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 or Floor 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.

## Key Risks.

- **Premium** – The premium payable is not refundable under any circumstances. There is a risk that the premium is paid and that the Cap or Floor is never exercised under the Term of the Cap or Floor.
- **Interest Rate Risk** – Interest rates may not move in line with your view. For example, buyers (sellers) of a Cap will be exposed to potential changes in the Floating Reference Rate below (above) the Cap Rate. Buyers (sellers) of a Floor will be exposed to potential changes in the Floating Reference Rate above (below) the Floor Rate.
- **Early Termination/Variation** – At our discretion, you can vary or terminate a Cap or Floor early but this may involve a cost.
- **Counterparty and operational risk** – We have performance obligations under Caps and Floors. You need to form a judgement on our ability to meet those obligations.

## Costs.

- **No Fees** – While there are no fees or charges to enter into a Cap or Floor, a non-refundable premium is payable upfront at the Transaction Date or can be amortised over the Term of the Cap or Floor, where agreed with us.
- **Other Costs** – While there are no upfront out of pocket costs with establishing a Cap or Floor, we derive a financial benefit incorporating a margin into the premium.

## How does an Interest Rate Cap & Floor Work?

A Cap or Floor is an interest rate risk management tool that can be used in conjunction with any Floating Rate lending facility. However, a Cap or Floor is a separate arrangement from the underlying lending facility which is itself governed separately by the terms and conditions set out in your facility agreement. The Strike Rate is typically set as the worst (best) case rate you are prepared to pay over the Term of the Cap (Floor), depending on whether you are the seller or buyer.

You will also set the Notional Amount (the amount on which payments are calculated) and agree to a schedule of Reset Dates. These dates are usually the dates where interest is payable under the lending facility but can be specified otherwise and are generally on a reset frequency of a monthly, quarterly or semi-annual basis.

The Reference Rate to be used is also set at the beginning of the transaction. The Reference Rate provides a benchmark interest rate. We use the Bank Bill Swap Rate (BBSW) or the Bank Bill Swap Bid Rate (BBSY).

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

On each Reset Date, we will compensate you if the prevailing Reference Rate exceeds or falls below the Strike Rate, depending on your circumstances. We will calculate the amount payable, using the formula shown in the examples below.

In the case where you have bought a Cap, if the Reference Rate applying to a Calculation Period is greater than the Strike Rate, then we 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 facility, your effective base interest rate for the Calculation Period will be equal to the Strike Rate (excluding any fees and margins payable under your lending facility). Where the Reference Rate for a Calculation Period is less than the Strike Rate, the Cap will lapse for that Calculation Period and the base interest rate applicable to your Variable Rate underlying lending facility will be the Reference Rate.

In the case where you have bought a Floor, if the Reference Rate applying to a Calculation Period is less than the Strike Rate, then we will pay you an amount based on the difference between those rates. Where the Reference Rate for a Calculation Period is greater than the Strike Rate for that Calculation Period, the Floor will lapse for that Calculation Period and the base interest rate applicable to your Variable Rate underlying lending facility will be the Reference Rate.

## How is the Floating Rate determined?

The Floating Rate used to determine the Floating Rate Coupon Payments will be based on:

- Australian Bank Bill Swap Rate ('**BBSW**'); or
- Australian Bank Bill Swap Bid Rate ('**BBSY**').

These are defined below and the calculation methodology relating to BBSW can found at [asx.com.au](http://asx.com.au). Note, that BBSY is the Bid Rate which is 0.05% higher than the BBSW Rate.

Reference Rates are available for Designated Maturities of:

- One month (1m BBSW or 1m BBSY);
- Three months (3m BBSW or 3m BBSY); or
- Six months (6m BBSW or 6m BBSY).

The tenor of the Reference Rate will be the same as the Coupon Payment frequency you have chosen. For example, if you choose a quarterly Coupon Payment frequency, the Reference Rate will be 3m BBSW or 3m BBSY.

BBSW and BBSY are widely used as Australian Bank Bill interest rate reference rates by investment banks, fund managers and retail banks. They refer to a daily calculation made by the ASX on the yields on bank bills of various maturities.

Reference Rate	Price	Description
<b>BBSW</b>	Mid	Bank Bill Swap Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX.
<b>BBSY</b>	Bid	Bank Bill Swap Bid Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX.

It is important to understand that BBSW and BBSY are NOT the Reserve Bank of Australia ('RBA') Cash Rate. BBSW and BBSY do not necessarily reflect nor follow movements in the RBA Cash Rate.

## 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 our approval, the Premium can be amortised over the term of the Cap or Floor. This may incur extra costs. For example, a three-year Cap or Floor with an upfront premium of \$7,200 may be amortised into 12 equal quarterly instalments of \$615 after taking into account the time value of money. The full amount of an amortised premium is always payable, even in the case of early termination.

If you wish to amortise the Premium you must apply to do so before entering into the transaction. The Premium cannot be amortised over a period greater than the term of the Cap or Floor.

## 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 or Floor, you would need to use the actual rates and figures quoted to you at the relevant time. It should be noted that the calculations below include rounding of decimal places.

## Scenario.

You have a 3-year AUD \$1,000,000 Variable Rate lending facility with quarterly rollover dates. The base interest rate is BBSY.

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 lending 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 BBSY 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 three-year Cap with:

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

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

If BBSY sets above 3.00% on a Reset Date, we will compensate you for the difference between BBSY and the Strike Rate for the ensuing Calculation Period. For example, if BBSY sets at 3.50%, we will compensate you on the basis of a difference of 0.50% for the Calculation Period. The methodology used to calculate the payment under a Cap can be either a simple interest in arrears basis or on a discounted or bank bill basis.

Under a simple interest in arrears basis, the below formula is used to determine the amount payable to you.

$$\text{Notional Amount} \times (R1 - R2) \times \text{ND} / 365$$

Where:

R1: the Reference Rate

R2: the Strike Rate

ND: the number of days in the Calculation Period

Using the figures in the example, this is calculated as follows.

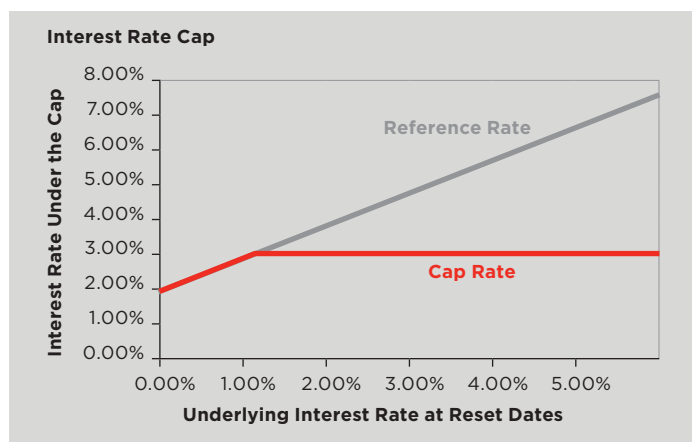
Amount Payable to you:

$$\$1,000,000 \times (0.035 - 0.03) \times 90 / 365 = \$1,232.88$$

Conversely, if the Reference Rate is below the Strike Rate, no payment will be made to you.

## Pay-off diagram.

The pay-off diagram below illustrates the potential outcomes under the Term of the Cap. As can be seen below, we will provide compensation where the Reference 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, BBSY is below the 3.00%, then nothing is payable under the Cap and no settlement takes place.



## Early Termination/Variation.

At our discretion, you can terminate or vary your Cap or Floor early but there may 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 or Floor that are still payable to us 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 or Floor.

## What Documentation is required?

### Master dealing agreement.

You will need to sign a master dealing agreement. This agreement will either be our own specific master dealing agreement or an industry standard master dealing agreement.

We will advise you which master dealing agreement you need to sign.

The master dealing agreement governs the dealing relationship between you and us and sets out the terms and conditions that will apply to all transactions that we enter into with you, that are covered by the agreement. In particular, they document the situations where those transactions can be terminated and the way the amount to be paid 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 its terms before signing. You should obtain independent advice if you do not understand any aspect of the document. If there is any inconsistency between this PIS and the master dealing agreement, the master dealing agreement prevails.

## Email or facsimile authority or indemnity.

If you would like to provide us with email or facsimile instructions in relation to a Cap or Floor, we will require you to complete an email and facsimile authority and indemnity. The purpose of the email or facsimile authority and indemnity is to protect us against the consequences of acting upon instructions which may not represent your genuine wishes, but which appear to us to be genuine.

## Other documentation.

You may be requested to complete additional documentation before you enter into a Cap or Floor depending on the outcome of our assessment of your creditworthiness. We will inform you if any further documentation is required at that time.

## Credit Approval.

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

## Confirmation.

The commercial terms of a particular Cap or Floor will be agreed at the time of dealing. This may occur over the phone or electronically. Once we reach an agreement, both we and you are bound by the terms of the Cap or Floor.

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

- The Notional Amount of your Cap or Floor;
- The Commencement Date;
- The Maturity Date;
- The Strike Rate;
- The Reference Rate;
- Whether you are the buyer or seller;
- 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.



An Interest Rate Collar (Collar) provides protection from interest rates above your worst known interest rate (the Cap) while participating in favourable moves down to your best known interest rate (the Floor). The opportunity cost of the Floor Rate reduces or eliminates the premium cost for the protection.

Key Facts	
Eligibility	Wholesale client only
Minimum Transaction Amount	AUD \$1,000,000
Term	1 Year to 10 Years
Currency	AUD
Payment Frequencies	Monthly, Quarterly, Semi-Annual

## Description.

- A Collar works in conjunction with a Variable Rate underlying lending facility.
- It is an agreement between you (the buyer) and us (the seller) that protects you against increases in interest rates beyond a pre-determined level known as the Cap Rate, while still allowing you to take advantage of falling interest rates down to a pre-determined level, known as the Floor Rate.
- The Cap Rate is also referred to as the 'worst case rate' because that is the highest rate you will be exposed to. For the Calculation Periods where the Reference Rate rises above the Cap Rate, we will pay you an amount representing the percentage difference between the Reference Rate and the Cap Rate.
- The Floor Rate is referred to as the 'best case rate' as this is the lowest possible base interest rate available to you once you establish a Collar. Conversely, for the Calculation Periods where the Reference Rate falls below the Floor Rate, you will pay us an amount representing the percentage difference between the Floor Rate and the Reference Rate.
- The Collar can be Exercised at either the Cap Rate or the Floor Rate, on one, or a series of rollover or Reset Dates under the agreed Term. In return, the buyer will 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 Collar is a hedging tool and not a lending facility.

## Suitability.

- A Collar may be suitable if you have a good understanding of interest rate markets and would like to change your interest rate exposure, based on your underlying liabilities, interest rate view, hedging and/or cash-flow requirements.
- If you are not confident about your understanding of these things, this product may not be suitable for you and we strongly suggest you seek independent advice before making a decision about this product.
- A Collar 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 Collar to your interest rate view, hedging and/or cash-flow requirements.
- **Certainty** – You can manage your interest rate exposure when you lock-in your Collar as a hedge against your floating assets/liabilities up to the pre-agreed Cap Rate while participating in favourable moves in interest rates down to your Floor Rate.

## Key Risks.

- **Premium** – The premium payable is non-refundable under any circumstances. There is a risk that the premium is paid and that the Collar is never Exercised during the Term of the Collar.
- **Interest Rate Risk** – Interest Rates may not move in line with your view. You will be exposed to fluctuations in the Floating Rate between the Cap and the Floor Rate.
- **Floor level** – When we provide a zero cost structure or a reasonable reduction in the premium payable under the Cap, the Floor rate may need to be set at a high level. This negates the potential to take advantage of favourable market rate movements.
- **Early Termination/Variation** – At our discretion, you can vary or terminate a Collar early however this may involve a cost.
- **Counterparty and operational risk** – We have performance obligations under a Collar. You need to form a judgement on our ability to meet those obligations.

## Costs.

- **No Fees** – While there are no fees and charges to enter into an interest rate Collar, depending on your circumstances and the rates applied to the Collar structure, a non-refundable premium may be payable by you.
- **Other Costs** – While there are no upfront out of pocket costs with establishing a Collar, we derive a financial benefit incorporating a margin into premium.

## How does an Interest Rate Collar work?

A Collar is an interest rate risk management tool that can be used in conjunction with any Variable Rate lending facility, including one with another lender.

Under a Collar, you set the Cap and Floor Rates at the time of entering the transaction, as well as the Notional Amount (the amount on which payments are calculated).

You will also agree to a schedule of Reset Dates. These dates are usually the dates where interest is payable under the lending facility but can be specified otherwise and are generally on a reset frequency of a monthly, quarterly or semi-annual basis.

The Reference Rate to be used is also set at the beginning of the transaction. The Reference Rate provides a benchmark interest rate. We commonly use the Bank Bill Swap Rate (BBSW) or the Bank Bill Swap Bid Rate (BBSY).

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

On each Reset Date, we will calculate the amount, if any, that either you or we must pay for the relevant Calculation Period. Amounts payable by us are calculated on the difference between the Reference Rate and the Cap Rate. Amounts payable by you are calculated on the difference between the Floor Rate and the Reference Rate.

An example of the way these amounts are calculated is set out in the Example section in this document.

If the Reference Rate applying to a Calculation Period is more than the Cap Rate, we will pay an amount to you. When this amount is used to offset the higher base interest rate applicable to your underlying lending facility, your effective base interest rate for the Calculation Period becomes the Cap Rate (excluding any fees and margins payable under your lending facility).

If the Reference Rate applying to a Calculation Period is less than the Cap Rate but more than the Floor Rate, then no amount will be payable by either party for the Calculation Period. The base interest rate for the Calculation Period will be the rate applying under your Variable Rate underlying lending facility.

If the Reference Rate applying to a Calculation Period is less than the Floor Rate, you will pay an amount to us. This amount, together with interest payable under your lending facility agreement, will result in you paying an effective base interest rate equal to the Floor Rate (excluding any fees and margins payable under your lending facility).

## How is the Floating Rate determined?

The Floating Rate used to determine the Floating Rate Coupon Payments will be based on:

- Australian Bank Bill Swap Rate ('BBSW'); or
- Australian Bank Bill Swap Bid Rate ('BBSY').

These are defined below and the calculation methodology relating to BBSW can found at [asx.com.au](https://www.asx.com.au) Note, that BBSY is the Bid Rate which is 0.05% higher than the BBSW Rate.

Reference Rates are available for Designated Maturities of:

- One month (1m BBSW or 1m BBSY);
- Three months (3m BBSW or 3m BBSY); or
- Six months (6m BBSW or 6m BBSY).

The tenor of the Reference Rate will be the same as the Coupon Payment frequency you have chosen. For example, if you choose a quarterly Coupon Payment frequency, the Reference Rate will be 3m BBSW or 3m BBSY.

BBSW and BBSY are widely used as Australian Bank Bill interest rate reference rates by investment banks, fund managers and retail banks. They refer to a daily calculation made by the ASX on the yields on bank bills of various maturities.

Reference Rate	Price	Description
<b>BBSW</b>	Mid	Bank Bill Swap Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX.
<b>BBSY</b>	Bid	Bank Bill Swap Bid Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX.

It is important to understand that BBSW and BBSY are NOT the Reserve Bank of Australia ('RBA') Cash Rate. BBSW and BBSY do not necessarily reflect nor follow movements in the RBA Cash Rate.

## Factors that determine the premium.

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

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



We can set the Cap Rate and Floor Rate at particular levels in order to create a zero cost structure. Where a zero cost structure is created, there is no upfront premium payable for the Collar. However, you may wish to nominate a different Cap Rate or Floor Rate which may require an up-front premium to be payable. We will advise you the amount before entering into the transaction.

Where the transaction is structured on a zero cost basis, we still derive a financial benefit. We obtain that benefit by incorporating a margin into the Cap Rate and the Floor Rate. This means that these rates are different to the base market interest rates prevailing at the time. In effect, you pay for the Collar by accepting the Cap Rate and Floor Rate quoted by us.

## When do I pay the premium?

Where premiums are payable, they are usually paid with cleared funds within two business days of entering into the transaction.

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

If you wish to amortise the premium you must apply to do so before entering into the transaction. The premium cannot be amortised over a period greater than the term of the Collar.

## 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 Collar, you would need to use the actual rates and figures quoted to you at the relevant time.

It should be noted that the calculations below include rounding of decimal places.

## Scenario.

You have a three-year AUD \$1,000,000 Variable Rate lending facility with quarterly rollover dates. The base interest rate is BBSY. Given the current economic environment, 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 lending 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 BBSY is at that time. You are exposed to unlimited risk if interest rates rise.

## How will a Collar change this?

Assuming you entered into a three-year Collar with:

- A Cap Rate of 3.00%;
- A Floor Rate of 2.00%;
- A Notional Amount of \$1,000,000.00;
- Quarterly Reset Dates; and
- BBSY as the Reference Rate.

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

If BBSY sets above 3.00% on a Reset Date, we will compensate you for the difference between BBSY and the Cap Rate for the ensuing Calculation Period. For example, if BBSY is 4.00%, we will compensate you on the basis of a difference of 1.00% for the Calculation Period. If BBSY sets below 2.00% on a Reset Date, you will be required to compensate us on the basis of the difference between BBSY and the Floor Rate. If BBSY sets between the Floor Rate and the Cap Rate on a Reset Date, no settlement will take place under the Collar. The methodology used to calculate the payment under a Cap can be either a simple interest in arrears basis or on a discounted or bank bill basis.

Under a simple interest in arrears basis, the below formula is used to determine the amount payable to you.

Where the Reference Rate is greater than the Cap Rate, we will pay you:

$$\text{Notional Amount} \times (R1 - R2) \times \text{ND} / 365$$

Where the Reference Rate is less than the Floor Rate, you will pay us:

$$\text{Notional Amount} \times (R3 - R1) \times \text{ND} / 365$$

Where:

R1: the Reference Rate

R2: the Cap Rate

R3: the Floor Rate

ND: the number of days in the Calculation Period

Assume the Reference Rate on a Reset Date is 4.00%, you will be compensated based on the following calculation:

$$\$1,000,000 \times (0.04 - 0.03) \times 90 / 365 = \$2,465.75$$

Amount Payable to you:

= \$2,465.75

Now assume the Reference Rate on a Reset Date is 1.75%, you must compensate us based on the following calculation.

$$\$1,000,000 \times (0.02 - 0.0175) \times 90 / 365 = \$616.44$$

Amount Payable by you:

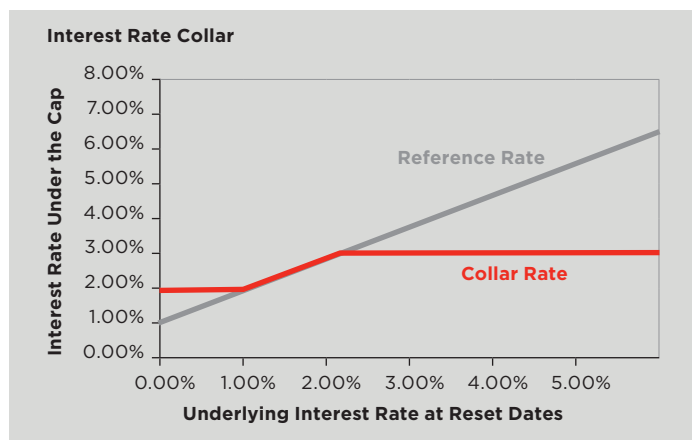
= \$616.44

Lastly, assume the Reference Rate on a Reset Date is 2.50%. Given the Reference Rate is between the Cap Rate and the Floor Rate, no payment is made by either party.

## Pay-off diagram.

The pay-off diagram below illustrates the potential outcomes under the Term of the Collar. As can be seen below, we will provide compensation where the Reference Rate is above 3.00%, while you will compensate us if Reference Rate falls below 2.00%

This means that between 2.00% and 3.00% your base interest rate will be the same as the Reference Rate.



## Early Termination/Variation.

At our discretion you can terminate or vary your Collar 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 Collar, if any, that are still payable to us are to be paid at the termination date. With these risks in mind, please consider your circumstances carefully when selecting the terms of your Collar.

## Negative Interest Rates.

Over recent years, markets have faced an unprecedented period of low and negative interest rates across global markets. These market developments have increased the focus on zero interest rate floors in documentation.

A zero interest rate floor is a provision that states if the benchmark reference rate (BBSW or BBSY Bid Rate) falls below zero on any given rate reset date, then the interest rate in the document for that interest period is deemed to be zero. The Floating Rate is subject to a zero interest rate floor, unless we have approved and confirmed otherwise in the Confirmation for a particular Collar.

If you enter into a Collar as part of a strategy to hedge the floating interest rate risk on your debt facility, but you have a zero interest rate floor in your debt facility document, you may be exposed to an ineffective hedge when the benchmark reference rate resets below zero.

This ineffective hedge will arise when your variable rate debt facility is floored at zero percent, yet payment due from you as the seller of the Floor continues below zero. In this case, you will be paying for the difference between the Floor Rate and the relevant negative reference rate set.

Given the above if the benchmark interest rate was to set below zero on a rate reset date, a hedger who has sold a Floor will be paying:

- Zero percent (plus any facility risk margin, line fee etc.) on the floating rate debt facility, and;
- The difference between the Floor Rate and the negative reference rate.

For a customer that is not utilising a sold Floor as part of a hedge you would be paying only the difference between the Floor Rate and the negative reference rate if the benchmark interest rate was to set below zero on a rate reset date.

If you are considering interest rate hedging with a Floor, where your debt facility documentation contains a zero interest rate floor, you should carefully think about your hedging strategy.

You may also need to consider whether such a mismatch affects the hedge accounting treatment of your transactions.

## **What Documentation is required?**

### **Master dealing agreement.**

You will need to sign a master dealing agreement.

This agreement will either be our own specific master dealing agreement or an industry standard master dealing agreement.

We will advise you which master dealing agreement you need to sign.

The master dealing agreement governs the dealing relationship between you and us and sets out the terms and conditions that will apply to all transactions that we enter into with you that are covered by the agreement.

In particular, they document the situations where those transactions can be terminated and the way the amount to be paid 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 its terms before signing. You should obtain independent advice if you do not understand any aspect of the document. If there is any inconsistency between this PIS and the master dealing agreement, the master dealing agreement prevails.

### **Email or facsimile authority or indemnity.**

If you would like to provide us with email or facsimile instructions in relation to a Collar, we will require you to complete an email and facsimile authority and indemnity.

The purpose of the email or facsimile authority and indemnity is to protect us against the consequences of acting upon instructions which may not represent your genuine wishes, but which appear to us to be genuine.

### **Other documentation.**

You may be requested to complete additional documentation before you enter into a Collar depending on the outcome of our assessment of your creditworthiness. We will inform you if any further documentation is required at that time.

### **Credit Approval.**

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

### **Confirmation.**

The commercial terms of a particular Collar will be agreed at the time of dealing. This may occur over the phone or electronically. Once we reach an agreement, both you and we are bound by the terms of the Collar.

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

- The Notional Amount of your Collar;
- The Commencement Date;
- The Maturity Date;
- The Cap Rate;
- The Floor Rate;
- The Reference Rate;
- 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 our representative as a matter of urgency.

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## General information.

### ***Anti-Money Laundering and Counter-Terrorism Financing Act 2006*** **Obligations.**

#### **What we need from you:**

To open a new Cap, Floor or Collar, we'll need some important details from you. Depending on the legal nature of your business (company, trustee, partnership etc.) you will be required to provide certain documents and information to us.

#### **If this is your first account with us:**

Under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* ('AML/CTF Laws'), it is a requirement that the account holder and all signatories to the account must be identified. So if you're opening an account for the first time this applies to you. It also applies to any signatory who is not an existing customer.

The identification requirements can be met by completing our Customer Identification Procedure which involves providing identity documentation to us. For information on documents required under our Customer Identification Standards please contact any branch or refer to our website.

If the account holder or any of the signatories to an account are not identified in terms of the AML/CTF Laws, the account will be blocked for all withdrawals, until they are identified. If you are an existing customer, an account signatory (or any other cardholder), identification requirements may have previously been satisfied so you don't need to provide it again, unless you are asked to do so by us.

#### **Regulatory and Compliance Controls and Monitoring.**

We are bound by laws that impose regulatory and compliance obligations, including obligations in relation to the prevention of money laundering and the financing of terrorism, which are the AML/CTF Laws. In order for us to meet our regulatory and compliance obligations, we perform certain control and monitoring activities.

Upon entering into any Cap, Floor or Collar with us, you agree to provide the following undertakings and agree to indemnify us 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 us under an assumed name;
- any funds used by you to enter into an agreement with us have not been derived from or related to any criminal activities;
- any payments received from us 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, Floor or Collar); and

- you and your Cap, Floor or Collar with us 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 us from third parties if we believe this is necessary to comply with our regulatory and compliance obligations, including 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, we and other members of the Westpac Group are not liable for any loss you suffer (including consequential loss) in connection with a deposit; and
- where legally obliged to do so, we may disclose information that we hold about you to our related bodies corporate or service providers, other banks, or relevant regulatory and/or law enforcement agencies (whether in or outside of Australia).

#### **Telephone conversations.**

The terms of a Cap, Floor or Collar are usually discussed over the telephone. Conversations with our dealing room and settlement departments are recorded. This is standard market practice. Recorded conversations are retained for a limited period and are usually used where there is a dispute and for staff monitoring purposes. You will need to advise our staff if you do not wish to be 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. You can contact us on the details provided on page the back cover of this PIS.

#### **What to do if you're still unhappy.**

If you are not satisfied with our response, you may lodge a complaint with the Australian Financial Complaints Authority:

**Online:** [www.afca.org.au](http://www.afca.org.au)

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

**Phone:** 1800 931 678

**Mail:** Australian Financial Complaints Authority  
GPO Box 3, Melbourne VIC 3001

## Privacy Statement.

All personal information and credit-related information (if applicable) we collect about you is collected, used and disclosed by us in accordance with our Privacy Statement which is available at [westpac.com.au/privacy/privacy-statement](http://westpac.com.au/privacy/privacy-statement), [stgeorge.com.au/privacy/privacy-statement](http://stgeorge.com.au/privacy/privacy-statement), [bankofmelbourne.com.au/privacy/privacy-statement](http://bankofmelbourne.com.au/privacy/privacy-statement) or [banksa.com.au/privacy/privacy-statement](http://banksa.com.au/privacy/privacy-statement). You do not have to provide us with any personal information or credit information (if applicable) but, if you don't, we may not be able to process an application or request for a product or service.

Where individuals engage with us in relation to products and services for our business, corporate or institutional customers (for example, as representative, administrator, director, corporate officer, signatory, beneficiary or shareholder of one of our customers) our Privacy Statement will be relevant to those individuals where we collect and handle their personal information. For example, where we collect their personal information to verify their identity or collect their signature as a signatory on a corporate account.

## Privacy Obligations.

To the extent that it applies to you, you must comply with the *Privacy Act 1988* (Cth) in relation to any personal information you provide to us in connection with this PIS, and if you engage in activities in a jurisdiction other than Australia, you must comply also with the applicable privacy laws in that jurisdiction.

## Foreign Tax Residents.

We are required under domestic and international laws to collect and report financial and account information relating to individuals and organisations who are, or may be, foreign tax residents. We may ask you whether you or any shareholder, beneficiary, settlor or controlling person are a foreign tax resident from time to time, such as when you open an account with us, or if your circumstances change. If you do not provide this information to us we may be required to limit the services we provide to you.

Unless you tell us otherwise, by completing any application, you certify that any shareholder, named beneficiary, settlor or controlling person is not a foreign tax resident. You must tell us if you, or any shareholder, named beneficiary, settlor or controlling person is, or becomes, a foreign tax resident (unless an exemption applies, such as for shareholders of listed companies). Where there are no named beneficiaries (e.g. for beneficiaries identified only as a class) you must tell us if a beneficiary is a foreign tax resident immediately when any decision is made to identify and make a distribution to them. You may contact us to provide foreign tax residence information by calling 1300 720 314 Option 1.

We cannot give tax advice, so please contact your independent tax advisor if you need help finding out whether any person is a foreign tax resident.

## Taxation.

Taxation law is complex and its application will depend on a person's individual circumstances. When determining whether or not this product is suitable for you, you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications it may have for you.

## External service providers.

We may subcontract any of our rights and obligations to another person in Australia or overseas.

We may disclose or share any information you provide to us with any such person. With respect to any personal information, details of the countries where the overseas recipients are likely to be located is contained in our Privacy Statement which is available at [www.westpac.com.au/privacy/privacy-statement](http://www.westpac.com.au/privacy/privacy-statement), [www.stgeorge.com.au/privacy/privacy-statement](http://www.stgeorge.com.au/privacy/privacy-statement), [www.bankofmelbourne.com.au/privacy/privacy-statement](http://www.bankofmelbourne.com.au/privacy/privacy-statement) or [www.banksa.com.au/privacy/privacy-statement](http://www.banksa.com.au/privacy/privacy-statement) (as updated from time to time).



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## Glossary.

'We', 'our' and 'us' refers to Westpac Banking Corporation ABN 33 007 457 141 Australian Financial Services Licence No. 233714 (and includes the Bank of Melbourne, St.George and BankSA brands).

**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** or Bank Bill Swap Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX or any successor administrator. If such a rate is not published, then a rate will be determined by us, acting in good faith and in a commercially reasonable manner. Investors can access information on the calculation methodology and the previous day's BBSW rate in the ASX Benchmark Rates section of the ASX website located at [asx.com.au](http://asx.com.au)

**BBSY** or Bank Bill Swap Bid Rate means the primary short-term rate used in the financial markets for the pricing and valuation of Australian dollar securities and as a lending reference rate as calculated and published daily by its administrator, the ASX or any successor administrator. If such a rate is not published, then a rate will be determined by us, acting in good faith and in a commercially reasonable manner. Investors can access information on the calculation methodology and the previous day's BBSY rate in the ASX Benchmark Rates section of the ASX website located at [asx.com.au](http://asx.com.au)

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

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

**Collar** refers to the band structure between the Cap Rate and the Floor Rate which determines the buyer's effective interest rate at every Reset Date under the Term of the facility.

**Commencement Date** means the date on which your Cap, Floor or Collar commences. This will be referred to as the 'Effective Date' in your Confirmation.

**Confirmation** means the document issued to you by us 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, Floor or Collar.

**Exercised** means to put into effect the right specified under a contract.

**Fixed Amount** means the fixed amount payable specified in the Confirmation.

**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.

**Floor Rate** refers to the minimum effective interest rate effective payable under the Collar.

**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, Floor or Collar.

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

**Maturity Date** means the date on which your Cap, Floor or Collar 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.

**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, Floor or Collar 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.

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

**Westpac Group** means Westpac and its related bodies corporate.



