**1.Net Funding**

In **Fund Transfer Pricing (FTP)**, **Net Funding** refers to the **net amount of internal funding provided or absorbed** by a business unit after considering both its **assets (uses of funds)** and **liabilities (sources of funds)**.

**🔍 Definition:**

**Net Funding = Total Funded Assets − Total Funded Liabilities**

* **Funded Assets**: Loans, mortgages, or any use of funds where the business unit needs internal funding from Treasury.
* **Funded Liabilities**: Deposits or any source of funds provided by the business unit to Treasury.

**💼 Context in FTP:**

Banks operate different business units (like Retail, Corporate, Treasury), and FTP acts as an internal pricing mechanism between them.

* If a business unit **lends more than it gathers in deposits**, it has a **positive net funding need** (i.e., a funding deficit).
* If it **gathers more deposits than it lends**, it has a **negative net funding need** (i.e., a surplus).

**📘 Example:**

Let’s say a **Retail Unit**:

* Issues **loans** worth **$100 million** (requires funds)
* Holds **customer deposits** worth **$70 million** (provides funds)

Then:

Net Funding=100M(Assets)−70M(Liabilities)=30M

{Net Funding} = 100M (Assets) - 70M (Liabilities) = {30M}

So, the **Retail Unit needs $30M from Treasury** to fund its lending operations.

**💰 Why Net Funding Matters in FTP:**

* Determines how much internal **interest cost or revenue** the business unit should be charged or credited.
* Helps in **measuring profitability** of business units accurately.
* Affects the **net interest margin (NIM)** at a unit level.

**📊 FTP Application:**

* For **net fund users**: FTP charge is applied → **cost of funds**.
* For **net fund providers**: FTP credit is applied → **benefit from providing funds**.

**✅ Summary:**

| **Business Unit Type** | **Net Funding** | **FTP Effect** |
| --- | --- | --- |
| Lends more than deposits | Positive | Pays FTP cost |
| Deposits more than lends | Negative | Earns FTP credit |

**2**.**Overdue Rules**:

**📌 What are Overdue Rules in FTP?**

In **Fund Transfer Pricing (FTP)**, **Overdue Rules** refer to **how FTP rates or charges are applied to assets or liabilities that have passed their contractual maturity date** — meaning they are **overdue**.

These rules define:

* What FTP rate to use after a loan or deposit becomes overdue
* How long the current FTP rate applies
* Whether to increase the rate or apply penalties
* How to treat overdue interest in internal funding charges

**🏦 Why Are Overdue Rules Important?**

Because after a loan/deposit **matures**, it's no longer aligned with the original pricing assumptions (like duration, liquidity risk, etc.). The **FTP system must adjust for this change**.

For example:

* A customer fails to repay a loan on time
* A deposit is not rolled over or repaid
* The bank needs to fund that asset differently now

So, FTP needs to **reprice** the asset/liability according to **overdue logic**.

**📘 Example:**

Assume:

* A business unit gave a loan maturing on **31-Mar-2025**
* It’s now **past due**, and the customer hasn’t repaid
* Original FTP rate was **6%**

Now, based on **overdue rules**, the FTP system may:

* Continue using 6% for 30 grace days
* After that, **increase the rate to 8% (penal rate or higher liquidity cost)**
* Apply daily FTP charges on the overdue balance

**🔄 Common Overdue Rule Configurations:**

| **Rule Type** | **Description** |
| --- | --- |
| **Grace Period** | Continue old FTP rate for N days (e.g., 30 days) |
| **Step-Up Rate** | Increase FTP rate gradually after grace period |
| **Overdue FTP Curve** | Use a special curve for overdue instruments |
| **Flat Penalty Rate** | Apply a fixed penalty (e.g., +200bps) |
| **Cap Duration** | Stop FTP after a certain number of overdue days |

**✅ Benefits of Overdue Rules**

* Accurately reflect **cost of non-performing or overdue assets**
* Ensure **internal accountability** for delay in recovery
* Enable better **risk-adjusted profitability analysis**

**💡 Summary:**

**Overdue FTP rules** define how the internal cost of funds is handled when a loan or deposit becomes overdue — usually by adjusting the FTP rate, applying penalties, or using alternate pricing curves.

**3**. **Exclusion Rules**

**🚫 What Are Exclusion Rules in Fund Transfer Pricing (FTP)?**

**Exclusion Rules** in FTP are **business rules or criteria used to exclude certain financial products, transactions, or accounts from FTP calculations**.

These rules tell the system:

❗️\*\*"Do not apply FTP logic to this transaction under certain conditions."\*\*

**📘 Common Examples of Exclusions:**

| **Type of Exclusion** | **Example** |
| --- | --- |
| **Product-Based** | Exclude intercompany loans or non-interest-bearing accounts |
| **Tenor-Based** | Exclude instruments with maturity under 7 days |
| **Customer Type** | Exclude internal (GL-level) accounts or central bank-related accounts |
| **Balance Criteria** | Exclude if the balance is zero or below a threshold (e.g., ₹100) |
| **Transaction Flags** | Exclude transactions flagged as test, invalid, or under dispute |
| **Currency-Based** | Exclude specific currencies (like crypto or restricted FX) |

**🧮 Why Use Exclusion Rules?**

| **Purpose** | **Benefit** |
| --- | --- |
| 🎯 Accuracy | Avoid applying FTP to irrelevant or exceptional items |
| 🔍 Control | Ensure clean FTP P&L reporting |
| ⚙️ Flexibility | Allow the Treasury/ALM team to configure logic based on business needs |
| 🧾 Compliance | Ensure regulatory or accounting requirements are met (e.g., exclude non-performing assets in certain reports) |

**✅ Example:**

Imagine a **Retail business unit** has:

* ₹10 Cr of regular savings deposits ✅ → Apply FTP
* ₹2 Cr of dormant, non-interest-bearing internal balances ❌ → **Exclude via rule**

So, FTP engine skips the ₹2 Cr from FTP rate application based on your **configured exclusion rule**.

**⚙️ Where Are These Rules Applied?**

* In the **FTP engine or rule configuration** layer
* Often part of **ETL pipelines** or **Spring Batch processors**
* Stored as **metadata rules** or in **parameter tables**

**🔁 Rule Configuration Structure (Example):**

exclusion-rules:

- type: product

condition: productType IN ('INTERCOMPANY\_LOAN', 'NON\_INT\_ACC')

- type: currency

condition: currency NOT IN ('INR', 'USD')

- type: balance

condition: balance < 100

**📝 Summary:**

**Exclusion rules** are logic gates used to **filter out** transactions or products **from FTP processing**, ensuring more accurate, relevant, and efficient transfer pricing outcomes.

Layering :  
**4.Base Layer :**

**🧱 What is Base Layer in Fund Transfer Pricing (FTP)?**

**Base Layer FTP** refers to the **foundational rate** that is used as the **starting point** for pricing any product (like loans or deposits) in a bank. It generally represents the **cost of funds** based on market or internal benchmark rates — **without any additional premiums**.

It is the **“clean” or “pure” transfer rate** before adding adjustments like:

* Liquidity Premium (LP)
* Credit Risk Premium
* Operating Cost Margin
* Profit Margin

**📘 Example:**

Let’s say the treasury sets the **base FTP rate** at **5%**, based on:

* Interbank market rates (like LIBOR/MIBOR)
* Internal benchmark curve
* Central bank rates

Now for pricing a home loan, you would use this base layer:

Final FTP Rate = Base Layer (5%) + Liquidity Premium (0.5%) + Credit Spread (1%)

= 6.5%

This **final FTP rate** is what is used to internally charge the business unit when they give out the loan.

**💡 Why Base Layer FTP is Important**

| **Benefit** | **Description** |
| --- | --- |
| **Fair Transfer Pricing** | Ensures all business units are charged equally for funds |
| **Product Pricing** | Helps determine interest rate to offer customers |
| **Performance Measurement** | Used to measure business unit profitability accurately |

**✅ In Simple Words:**

**Base Layer FTP** is the core interest rate used as the base for pricing assets and liabilities — it reflects the basic cost of money, before adding risk-related charges.

**5**.**Liquidity Premium (LP)**

**💧 What is Liquidity Premium (LP)?**

**Liquidity Premium (LP)** is the **additional cost** added to the **base interest rate** to account for the **difficulty in obtaining long-term funding**.

It represents the **cost of maintaining liquidity** — especially when a bank gives long-term loans but its sources of funding (like customer deposits) are mostly short-term.

**📘 Example:**

Imagine your **retail business unit** gives a **10-year home loan** to a customer. But most of your bank’s deposits are **short-term (1-2 years)**.

This means it’s **difficult for the bank to fund long-term assets (like loans)** using only short-term money. That **liquidity gap** is a **risk**, and to cover that risk, the bank adds a **Liquidity Premium** to the FTP rate.

**🧮 In FTP Calculation:**

FTP Rate = Base Rate (like risk-free rate) + Liquidity Premium (LP)

This FTP rate is then used to price the loan or product more accurately, by considering the **true cost of funding**.

**🏦 Why is LP Important in Banking?**

| **Factor** | **Description** |
| --- | --- |
| **Purpose** | To reflect the cost of obtaining long-term funding when it’s hard to get |
| **When it's high** | During liquidity crunches or financial stress periods |
| **Used by** | Treasury, Finance, ALM (Asset-Liability Management), Product Pricing teams |

**✅ In Simple Words:**

**Liquidity Premium** is an extra charge in FTP to reflect the cost or risk of **not having enough long-term money** to support long-term loans.

**6**. **Back-Dated Rules:**

**📅 What are Back-Dated Rules in FTP?**

**Back-Dated Rules** in **Fund Transfer Pricing (FTP)** refer to applying **FTP rates retroactively** to **past-dated transactions**. This is usually done when:

* A product was booked earlier, but FTP rules or rates were updated later.
* Data arrived late, and you still need to assign FTP for prior dates.
* Treasury revised the interest rate curve and wants to reapply rates historically.

**📘 Example:**

Let’s say your **Retail Business Unit** issued a loan on **1st March 2024**, but the FTP rates for March were only finalized on **15th March**.  
You now need to **apply FTP from 1st March onwards** — not from when rates were finalized.

This is where **Back-Dated FTP logic** kicks in:  
You go back and apply **correct FTP rates** as if they were known at the time of transaction.

**🧮 How It Works:**

| **Step** | **Description** |
| --- | --- |
| 1️⃣ | Capture the transaction date (e.g., loan booked on 01-Mar) |
| 2️⃣ | Look up the FTP rule or curve applicable for that **historical date** |
| 3️⃣ | Calculate the base rate + liquidity premium, etc., based on that date |
| 4️⃣ | Store or adjust the FTP cost for that backdated period |

**🏦 Why Use Back-Dated Rules?**

| **Reason** | **Impact** |
| --- | --- |
| 🔄 Accurate P&L | Ensures correct interest income/charges are reflected in historical reporting |
| 📊 Proper Performance Attribution | Helps measure business unit profitability correctly |
| 📁 Audit & Compliance | Meets regulatory expectations for consistency in pricing |

**⚠️ Points to Watch**

* **Back-dated FTP** must ensure **no double-counting or revenue leakage**.
* Needs solid **data governance** and **FTP curve versioning**.
* Often handled via **batch jobs** or **FTP engines** in monthly processing.

**✅ Summary:**

**Back-Dated FTP Rules** are used to apply correct transfer pricing for older transactions based on the FTP curve **as of that original date**, not the current one.

**7. Campaign:**

**📌 What is an FTP Campaign?**

An **FTP (Funds Transfer Pricing) Campaign** is a **strategic initiative** run by the Treasury or ALM (Asset Liability Management) team to:

**🎯 Achieve specific balance sheet goals by:**

* Encouraging **loan growth** in targeted areas (e.g., SME loans, mortgages)
* Boosting **deposit mobilization** (e.g., savings or current accounts)
* Managing **liquidity** or **interest rate risk**

**📈 How It Works:**

During an FTP campaign, the bank adjusts the **internal FTP rates** (or spread) for certain business units or products to:

* Provide better internal margins
* Attract volume in that segment

This **makes the product more profitable** for the business unit, even if the external customer rate stays the same.

**🧾 Example:**

Suppose:

* Normal FTP cost of funds = 5%
* Mortgage rate = 7%
* Margin = 2%

➡️ During the campaign:

* Bank offers a lower FTP cost of 4% for mortgages
* Business unit still earns 7% on customer rate
* But now the margin is 3% → encourages mortgage sales

📌 This FTP adjustment applies **only during campaign period**.

**📌 What is an STT Campaign?**

**STT** stands for **Special Targeted Transfer pricing** (or **Special Transfer Terms** in some banks). It's a **customized, more tactical version** of an FTP campaign, usually:

* **Limited to specific products/branches/segments**
* **Temporary**
* Driven by **short-term liquidity needs or competitive positioning**

**🧩 STT Campaigns Can Be:**

* A special FTP rate offered **only to a specific branch**
* A limited-time bonus spread for **bulk deposit mobilization**
* Targeting **geographies** with low deposit-to-loan ratios

**📌 Difference Between FTP and STT Campaigns:**

| **Feature** | **FTP Campaign** | **STT Campaign** |
| --- | --- | --- |
| 🔧 Scope | Strategic, broad | Tactical, narrow |
| 🕒 Duration | Medium to long term | Short term |
| 🎯 Goal | Balance sheet strategy | Urgent volume/liquidity targets |
| 📊 Application | Product/category level | Branch/customer/segment level |

**✅ Real-World Analogy:**

* **FTP Campaign** = Bank-wide Diwali Sale – broad and strategic.
* **STT Campaign** = One-day flash offer in Hyderabad – specific and tactical.

for an **STT FTP campaign**, showing:

1. How much the **customer pays** (interest rate)
2. How much the **business unit earns**
3. What the **treasury pays and earns**
4. The internal **FTP rate flow**

**🎯 Scenario: Fixed Deposit STT Campaign**

**📌 Business Context:**

* Product: Fixed Deposit (FD)
* Region: Chennai branch (eligible for STT campaign)
* Tenure: 2 years
* Customer Rate: **7.00%**
* Campaign FTP Rate (STT): **6.50%**
* Normal FTP Rate: **5.75%**
* Deposit Amount: ₹1 crore

**💰 Step-by-Step Flow:**

**1️.Customer → Business Unit (Liability Side)**

* Customer books FD at **7.00% interest**
* So, the bank (BU) owes the customer ₹7,00,000 interest per year

**2️.Business Unit → Treasury (FTP rate)**

* As part of FTP, Treasury **“borrows” the funds internally** from the business unit at **6.50% (STT rate)**
* So Treasury will **pay** the BU ₹6,50,000 per year as FTP credit

**3️.Business Unit Profit (Margin)**

* BU pays 7.00% to the customer
* BU **receives 6.50%** from Treasury
* ➡️ **Net Cost to BU = -0.50% (negative margin)**
  + This may be acceptable during a campaign since BU is incentivized to bring in deposits

**4️.Treasury → Asset Business (e.g., Loans)**

* Treasury then **lends internally** at a higher rate to asset-side business (say, 9.00%)
* Treasury earns ₹9,00,000 from internal loan

**🧾 Summary Table:**

| **Flow** | **Rate** | **Amount (₹)** |
| --- | --- | --- |
| Customer → Bank (FD rate) | 7.00% | 7,00,000 (bank pays) |
| Treasury → Business Unit (FTP rate) | 6.50% | 6,50,000 (treasury pays) |
| Treasury → Loan BU (internal loan) | 9.00% | 9,00,000 (treasury earns) |

**💹 Final Margins:**

| **Entity** | **Margin** | **Comment** |
| --- | --- | --- |
| **Business Unit** | -0.50% loss | Deliberately reduced for campaign |
| **Treasury** | +2.50% gain | Earns 9.00%, pays only 6.50% |
| **Overall Bank** | +2.00% gain | Still makes margin on full cycle |

**✅ Why This Works in STT Campaigns:**

* Treasury can afford to **give better FTP to BUs temporarily**
* Encourages **quick deposit mobilization**
* Helps manage **liquidity coverage ratios**, funding targets, etc.

**FTP Campaign Example:**

Involving both the **business unit** and **treasury**, including:

* FTP rate movement
* Customer and internal rate flow
* Impact on treasury, business unit (BU), and the bank overall
* Purpose of campaign

**🎯 Scenario: FTP Campaign to Promote Home Loans**

**📌 Objective:**

The bank wants to grow its **retail home loan portfolio** by ₹1,000 crore in Q2.  
To support this, the Treasury runs an **FTP campaign** offering **lower FTP cost** for retail business units that issue home loans.

**🧮 Normal FTP Rate Setup (Before Campaign):**

| **Item** | **Value** |
| --- | --- |
| Customer interest rate (home loan) | 9.00% |
| Normal FTP rate (cost of funds) | 7.50% |
| BU margin (spread) | 1.50% |

BU earns 9.00% from the customer and pays 7.50% to treasury → earns 1.50%.

**📢 Campaign Adjustment:**

| Campaign Period | 01-Jul-2025 to 30-Sep-2025 |  
| FTP Rate Offered to BU | **6.50% (vs. 7.50%)** |  
| Eligible Product | Home Loans only |  
| Business Units Targeted | Retail lending BUs |  
| Goal | ₹1,000 crore in disbursals |

**💰 Example Transaction (During Campaign):**

* Loan Amount: ₹1 crore
* Tenure: 20 years
* Customer Rate: **9.00%**
* FTP Rate (Campaign): **6.50%**

**📈 Internal Flow:**

| **Flow** | **Rate** | **Amount (Annualized ₹)** |
| --- | --- | --- |
| Customer → Business Unit (BU) | 9.00% | 9,00,000 |
| BU → Treasury (FTP payment) | 6.50% | 6,50,000 |
| Treasury → External Market Funding | 6.00% | 6,00,000 (assumed) |

**✅ Margins:**

| **Entity** | **Earns** | **Pays** | **Net Margin** |
| --- | --- | --- | --- |
| BU | 9.00% | 6.50% | **+2.50%** |
| Treasury | 6.50% | 6.00% | **+0.50%** |
| Entire Bank | 9.00% | 6.00% | **+3.00%** |

Because of the campaign, **BU is more motivated** (gets a higher spread), and **treasury still earns** a smaller but positive margin.

**📊 Why FTP Campaign Works:**

| **Benefit** | **Explanation** |
| --- | --- |
| 💼 BU Incentive | More margin encourages them to push home loan products |
| 💰 Treasury Strategy | Drives internal balance sheet mix; adjusts funding focus |
| 📈 Asset Growth | Helps bank meet loan growth targets for that quarter |
| 🧮 Dynamic Pricing Control | Treasury can run different FTP rates for different products, tenures, and time frames |

**📌 Post-Campaign (After 30-Sep-2025):**

* FTP rate resets to **7.50%**
* BU margin goes back to 1.50%
* Treasury resumes normal spread
* Any new home loans after this date use **normal FTP rate**

**🧾 Summary:**

| **Period** | **FTP Rate** | **BU Margin** | **Impact** |
| --- | --- | --- | --- |
| Before Campaign | 7.50% | 1.50% | Normal operations |
| During Campaign | 6.50% | 2.50% | **Higher BU incentive → more disbursals** |
| After Campaign | 7.50% | 1.50% | Returns to normal |

**8**. **Quote Reference (Quote Ref) Processing**:

**💡 What is Quote Ref Processing in FTP?**

**Quote Reference (Quote Ref) Processing** refers to the use of a **specific FTP rate** (or curve) assigned to a transaction **at the time it is originated**, and **locking** that rate for the life of the transaction — regardless of how FTP curves change later.

Think of it like **tagging** a loan or deposit with the FTP rate that was “quoted” on the day it was booked.

**✅ Use Case:**

If a Retail Banking unit originates a **5-year home loan** on **01-Mar-2024**, the FTP engine assigns an internal rate (say 6.25%) using the **FTP curve for that date**.

Even if the FTP curve changes on 01-Apr-2024, the loan will continue to carry **6.25% as its FTP cost**, because it was locked via the **quote ref**.

**🎯 Why Use Quote Ref Processing?**

| **Reason** | **Benefit** |
| --- | --- |
| 🔐 Lock-in FTP cost | Ensures stable profitability for business units |
| 🧮 P&L accuracy | Matches FTP cost with originally expected margins |
| 🔄 Avoid revaluation | Prevents re-pricing of long-term assets/liabilities |
| 📜 Audit trail | Ensures transparency and traceability of FTP decisions |

**🔄 How Quote Ref Works in Practice**

1. **At Origination**:
   * Transaction is tagged with a **Quote Ref ID** or **timestamp**
   * FTP engine fetches rate from the curve **on that exact date**
   * Rate is stored alongside the transaction (often in a quote\_ref field)
2. **During Reprocessing or Reporting**:
   * The stored **quote date / ID** is used to **look up the exact FTP rate again**
   * No recalculation from current market conditions

**🧾 Example:**

| **Transaction** | **Date** | **Tenor** | **Quote Ref Date** | **FTP Rate from Curve** | **Applied FTP** |
| --- | --- | --- | --- | --- | --- |
| Home Loan | 01-Mar-2024 | 5 years | 01-Mar-2024 | 6.25% | 6.25% |
| Auto Loan | 10-Mar-2024 | 3 years | 10-Mar-2024 | 6.10% | 6.10% |

Even if in May the curve says 7.0%, these remain at their **original quoted FTP**.

**⚙️ Where is Quote Ref stored?**

* Usually in the **FTP source system**, e.g., a quote\_ref\_date or ftp\_rate\_id
* Used by **FTP calculation engines** (Spring Batch, SAS, etc.)
* Often **cached** in a rate table or reference curve repository

**⚠️ Things to Watch**

| **Point** | **Impact** |
| --- | --- |
| Changing Quote Refs | May affect margin reporting if not handled correctly |
| Missing Quote Dates | Can cause fallback to default or latest rates |
| Backdated Transactions | Must use correct historical curve via Quote Ref |

**📝 Summary:**

**Quote Ref Processing** in FTP ensures a transaction **retains the FTP rate it was quoted at origination**, providing stable P&L treatment, audit trail, and consistency over time.

**9**. **CapCharge** (short for **Capital Charge**)

It is the **cost assigned to business units** for the amount of **regulatory or economic capital** their activities require the bank to hold.

**📌 Why CapCharge Exists:**

Banks are required to hold capital against certain types of **risky activities** (e.g., loans, derivatives, etc.) to absorb potential losses. This capital isn't free — shareholders expect a **return** on it.

CapCharge is a way to:

* **Pass on the cost of capital** to the business unit that causes the risk.
* Ensure **risk-based pricing**.
* Encourage **efficient use of capital**.

**🧮 Formula (Simplified):**

CapCharge = Economic Capital × Cost of Capital (%)

**🧾 Example:**

Assume:

* Economic Capital required for a corporate loan = ₹10 crore
* Cost of Capital (required return by shareholders) = 12%

Then:

CapCharge = ₹10 crore × 12% = ₹1.2 crore per year

This ₹1.2 crore is charged to the business unit in addition to the **FTP rate**.

**💼 In Practice (FTP P&L View):**

| **Component** | **Value** |
| --- | --- |
| Interest from Customer | 9.00% |
| FTP Cost (funding) | -6.50% |
| CapCharge | -1.20% |
| Net Margin | 1.30% |

**✅ Purpose of CapCharge in FTP:**

| **Benefit** | **Explanation** |
| --- | --- |
| 💡 Capital Efficiency | Encourages business units to use capital wisely |
| 📊 Risk-Based Pricing | Loans with higher risk/capital need higher returns |
| 🏦 Regulatory Alignment | Reflects real cost of holding capital |

Let me know if you'd like an example of **CapCharge implementation** in SQL or Spring logic!

**10.Break funding:**

**It** refers to a situation where the **internal funding agreement** between a business unit and the central treasury (or FTP desk) is disrupted before its originally agreed maturity. This can happen due to **early prepayment, restructuring, or other changes** to the terms of a loan or deposit.

**🚨 What is Break Funding in FTP?**

Break funding is a **cost (or sometimes a gain)** charged to a business unit when it **terminates or modifies a funding agreement before the maturity date**.

**🔁 Example Scenario:**

* Treasury funds a 5-year fixed-rate loan to a business unit at an internal FTP rate of 3.5%.
* After 2 years, the business unit prepays the loan (e.g., customer pays back early).
* But Treasury had locked in funding for 5 years.
* Now Treasury must **reinvest the funds in a possibly lower interest rate environment**.
* The **difference between the original and current market rate** for the remaining 3 years becomes a **break funding cost**.

**💰 Formula (Conceptual):**

Break Funding Cost = NPV of (FTP Rate - Market Rate) over the remaining term

Where:

* **FTP Rate** = original internal funding rate
* **Market Rate** = current rate for the remaining term
* **NPV** = Net Present Value of the rate difference

**✅ Why It's Important:**

* **Aligns pricing behavior**: Encourages business units to consider the long-term cost of breaking funding agreements.
* **Risk Management**: Helps Treasury manage interest rate risk more effectively.
* **Performance Measurement**: Ensures fair performance evaluation by accounting for early termination effects.

**Detailed example with actual numbers** to illustrate how **Break Funding** works in **Fund Transfer Pricing (FTP)**:

**📘 Scenario:**

Let’s say:

* A **business unit** originates a **5-year fixed-rate loan** for a customer.
* The **loan amount** is **$10,000,000**.
* The **FTP rate** (internal funding rate from Treasury) is **4% per annum (fixed)**.
* After **2 years**, the customer **prepays the loan**.
* At the time of prepayment, the current **market rate for a 3-year term** is **2.5%**.

**🧮 FTP Setup:**

* The business unit received $10M at **4% FTP rate** for **5 years**.
* Treasury assumed it could lend this $10M at 4% for 5 years (locked funding).
* Now, 2 years in, the business unit returns the $10M early.
* Treasury now has to **reinvest this $10M for the remaining 3 years at just 2.5%**, not the original 4%.

**💸 Break Funding Cost Calculation:**

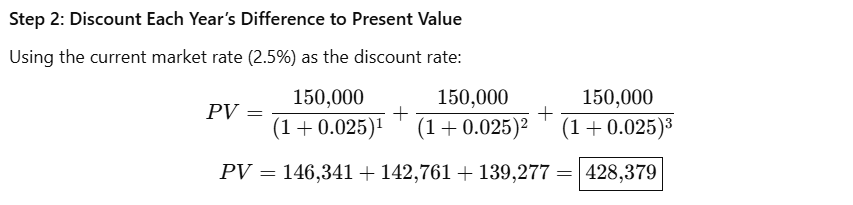
We calculate the **present value of the loss** Treasury will incur due to this early break:

**Step 1: Determine Cash Flow Difference**

| **Year** | **FTP Interest (4%)** | **Market Interest (2.5%)** | **Difference** |
| --- | --- | --- | --- |
| Y3 | $400,000 | $250,000 | $150,000 |
| Y4 | $400,000 | $250,000 | $150,000 |
| Y5 | $400,000 | $250,000 | $150,000 |

* Loss per year = $150,000
* Duration = 3 years

**Step 2: Discount Each Year’s Difference to Present Value**



**✅ Break Funding Cost = $428,379**

This amount would be **charged to the business unit** as a **penalty or adjustment** for early prepayment of the funding agreement.

**💼 Business Implication:**

* This discourages business units from **prepaying loans** without considering the cost to Treasury.
* Keeps **FTP framework fair** and ensures each unit is held accountable for breaking the term of funding.

Great question, Manideep! Let's break down the terms **ONSHOREP X** and **REG COST** in the context of **Funds Transfer Pricing (FTP)** or internal bank costing.

**🔍 1. ONSHOREP X**

**Meaning:**

**ONSHOREP X** typically refers to the **onshore product cost or funding rate** used in **internal transfer pricing** when the business activity is **based in the same country** (onshore).

* **"ONSHOREP"** = *Onshore Pricing*
* **"X"** could be a variant or version of the rate (e.g., version of cost curve or time bucket)

**📌 Use Case:**

Used by Treasury to assign internal funding cost for **domestic business units**.

**🧾 Example:**

* A retail loan originated in **India**
* Onshore funding curve (ONSHOREP X) for 3 years = **6.50%**
* This rate is used by treasury to charge the business unit for funding that loan

**🔍 2. REG COST (Regulatory Cost)**

**Meaning:**

**REG COST** = *Regulatory Cost*, which refers to additional internal cost allocations related to:

* **Regulatory capital requirements**
* **Compliance costs**
* **Liquidity buffers** (like LCR, NSFR)
* **Regulatory levies or reserve ratios**

**📌 Use Case:**

REG COST is often charged to a business unit in addition to the FTP to account for the **non-interest cost of compliance** or **regulatory burden** of certain products.

**🧾 Example:**

* Loan book attracts high capital requirements
* FTP rate = 6.50%
* REG COST = 0.30%
* Final internal transfer cost to the business unit = **6.80%**

**✅ Combined Example:**

| **Component** | **Rate** |
| --- | --- |
| Customer loan rate | 9.00% |
| FTP rate (ONSHOREP X) | 6.50% |
| REG COST (compliance) | 0.30% |
| CapCharge (capital) | 0.70% |
| **Total Cost to BU** | 7.50% |
| **BU Net Margin** | 1.50% |

Let me know if you'd like these mapped to Spring Batch logic, or a table design to store ONSHOREP, REG COST, and CAPCHARGE values dynamically!