DerivativesIntelligence
Incorporating Derivatives Week

Jun 22, 2012 - - **Robert McGlinchey**

Interest Rate Derivatives House Of The Year: RBS

Appetite for risk, depth in global interest rates research and strength in developing bespoke structured and flow products in both emerging and developed markets were some of the plaudits from buysiders that set the **Royal Bank of Scotland** apart from competitors in the interest rates derivatives market over the last year. That helped the firm land the 2012 Interest Rate Derivatives House Of The Year award from the editors of *Derivatives Week/Derivatives Intelligence*.

One reason that RBS has been able to offer targeted research is because of its Structuring Gateway application. The Structuring Gateway is a centralized database for all products, trade ideas and content, and educates sales on structured offerings. One novel feature of the Structuring Gateway allows RBS to track the products and ideas viewed by users in an effort to generate targeted campaigns.


Garrath Fulford

“Whether it’s through finding the right product or by talking to the right people for more tailored solutions, the **Gateway** is equipped with information covering the full spectrum of our offering, said **Garrath Fulford**, global head of fixed-income structuring in London. “Its ability to extract analytics on user behavior provides a tangible element that brings people together in terms of product performance and ensures that we provide a full and comprehensive service that meets our clients’ interests.”

In terms of flow products, the emphasis from endusers active in rates over the last year has been for innovative vanilla products, with balance-guaranteed swaps and contingent event swaps two typical products highlighted.

In March, **Center Parcs**, which runs a European network of holiday villages, had a portfolio of swaps to unwind as part of a refinancing deal. After due diligence, however, it emerged that swap terminations, prior to the refinancing being funded, would have triggered a default on the existing commercial mortgage-backed securities.


Christian Alibert

“The RBS legal team, in the last two or three days of legal due diligence taking place, realized that the outgoing CMBS could potentially be in default with the refinancing and accompanying swap terminations. It had been thought that it would have been just a matter of switching off the old swap protection and putting new swaps in place,” said **Christian Alibert**, head of inflation trading at RBS. “However, the new funding program could not have commenced its seven-day funding period without switching off the old swaps.”

The challenge for RBS was not only that the certainty of closeout costs was required before the refinancing process could begin, but that the scheme did not have the cash available to buy option protection. During the process of finding a solution for Center Parcs, RBS held a contingency meeting, which involved the presence of the legal team and sales team, and the debt capital markets team who were involved in arranging the refinancing to provide the timelines. The rates risk managers were involved in the meeting as they were responsible for hedging the risk, and the group’s risk management team was present to get an understanding of the risk the bank was managing. The options team was present to determine what options could be written.

“How do you create such an option for clients that they would only need in certain circumstances, as the price of that must be inherently less than a price where, whether they need it or not, they might get a windfall. So, if rates move against such clients and the trade doesn’t happen, that’s the protection they need. If the trade does happen, they are less concerned about where rates may have gone, since they are not asking for more money or to benefit from this circumstance,” said Alibert. “They just want to be protected in the unlikely event that their deal might not go ahead. So it’s a subset of a normal option payoff that demands a subset of a normal option price.”

RBS subsequently executed a contingent unwind transaction that guaranteed the closeout cost of the swaps for the week required for funding to take place, without requiring the physical tear-ups that would have placed the outgoing scheme in default. The contingent event option was crucial in bringing the transaction to completion and ultimately allowed Center Parcs and its owner, **Blackstone**, to deliver all of their strategic financing objectives.

“[RBS] came forward with the idea and led on every aspect of the process and, ultimately, delivered,” said **Martin Dalby**, ceo of **Center Parcs**. “We now have a strong platform to finance the future of the business and deliver the fifth site, which is of great importance to us.”

Each week, DW is unveiling the detail behind each award winner in the run up to a gala ceremony on Sept. 19 at the Four Seasons Hotel London to honor the winners. Next week we unveil the winner of the Electronic Trading Platform of the Year award.