

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.

## Interest Rate Swap with Barrier

Date : [26 March 2024]

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### STATEMENT OF DISCLAIMER

The Product Disclosure Statement in relation to this Interest Rate Swap (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?

An Interest Rate Swap (IRS) with Barrier is an over-the-counter (“**OTC**”) derivative product (the “**Transaction**”) which helps the user to hedge exposure arising out of fixed or floating interest rate assets or liabilities. The user exchanges fixed rate to floating rate or vice versa, or between two different floating interest rates of the same currency, at a predefined frequency (or a predefined schedule) with an added barrier mechanism. There is no Notional Exchange in this swap.

Swaps with Barrier are path-dependent swap contracts, that is, their payoff is not only a function of the level of the reference index to swap rate but also dependent upon whether or not the reference index reaches certain pre-specified barrier level(s) at or before maturity.

This Transaction is suitable for users with a specific target and view on future interest rates. The client is hedged against interest rate risk above (or below) a pre agreed-level (Barrier level) arising due to underlying exposures of liability or asset. Barrier options can be analyzed as an underlying Vanilla Interest Rate Swap with the overlay of a ‘barrier mechanism’, which are either a Knock Out (KO) or a Knock In (KI) barrier.

- A Knock-Out barrier means that the underlying derivative payout (in this case a vanilla Interest Rate Swap) is extinguished if the underlying asset reaches a predetermined barrier level during its life or at expiry.
- A Knock-In barrier means the underlying derivative payout is activated only if the underlying asset reaches a predetermined barrier level during its life or at expiry

The transaction may or may not have an upfront premium.

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.

### **Decomposition:**

- Vanilla Interest Rate Swap overlaid with KO or KI Mechanism

### **Variations:**

- Fixed to Floating Interest Rate Swap:
- **Receiver Swap:** User receives Fixed Rate p.a. on Notional Amount and pays Floating Rate Option + spread p.a., on Notional Amount
- **Payer Swap:** User pays Fixed Rate p.a. on Notional Amount and receives Floating Rate Option + spread p.a., on Notional Amount
- Interest Rate Swap Observation Type
- **Standard:** For a given Floating Rate Option, the fixing is taken ‘n’ business days prior to the Accrual Period Start Date, as per market conventions.

- **In-arrears:** For a given Floating Rate Option, the fixing is taken 'n' business days prior to Accrual Period End Date.
- Compounding applicability
- Compounding is not applicable
- Compounding is applicable
- Overnight Index Swaps fall under this category • Barrier Type:
- Interest Rate Swap with KO Barrier
- Interest Rate Swap with KI Barrier
- Relative Position of Fixing (or spot) w.r.t Barrier:
- **Up and Out (in):** Knock Out (Knock In) occurs when underlying asset moves up to the barrier and fixes (or trades in case of American) at or above the barrier.
- **Down and Out (in):** Knock Out (Knock In) occurs when underlying asset moves down to the barrier and fixes (or trades in case of American) at or below the barrier.
- Barrier Observation Type:
- **European:** Barrier mechanism triggered by Underlying asset levels observed on Expiration Date
- **American:** Barrier mechanism triggered by Underlying asset levels observed through the life of the trade

## 2. Contract terms and conditions

<b>Party A:</b>	JPMorgan Chase Bank, Mumbai branch
<b>Party B:</b>	User
<b>Trade Date:</b>	[ ]
<b>Effective Date:</b>	[ ]
<b>Termination Date:</b>	[ ], subject to the Business Day Convention
<b>Mandatory Early Termination:</b>	[ ]
<b>Mandatory Early Termination Date:</b>	[ ]
<b>Notional Amount:</b>	[ ]
<b>Business Day Convention:</b>	[ ]
<b>Business Days:</b>	[ ]
<b>Calculation Agent:</b>	Party A
<b>Governing Law:</b>	English

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<b>Documentation:</b>	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").
<b>Interest Exchange</b>	
<b><u>Party A Payments</u></b>	
<b>Floating Rate Option:</b>	<input type="checkbox"/>
<b>Party A pays:</b>	Subject to no Knock Out Event occurring on the respective Party A Payment Dates  <input type="checkbox"/> % (or Floating Rate Option + <input type="checkbox"/> %) p.a. on Notional Amount
<b>Party A Payment Dates:</b>	<input type="checkbox"/> on every <input type="checkbox"/> commencing on <input type="checkbox"/> and ending on Termination Date, subject to adjustment in accordance with the Business Day Convention.
<b>Party A Day Count:</b>	<input type="checkbox"/> , Adjusted / unadjusted
<b><u>Party B Payments</u></b>	
<b>Party B pays:</b>	Subject to no Knock Out Event occurring on the respective Party B Payment Dates  Floating Rate Option + <input type="checkbox"/> % (or <input type="checkbox"/> %) p.a. on the Notional Amount
<b>Party B Payment Date:</b>	<input type="checkbox"/> on every <input type="checkbox"/> commencing on <input type="checkbox"/> and ending on Termination Date, subject to adjustment in accordance with the Business Day Convention.
<b>Party B Day Count:</b>	<input type="checkbox"/> , Adjusted / unadjusted
<b>Underlying Asset:</b>	<input type="checkbox"/>

**Knock Out (In) Event:**

A Knock Out (In) Event is deemed to have occurred if the Underlying Asset is less than (greater than) or equal to the Knock Out (In) Barrier on the Observation Date.

Upon occurrence of Knock Out (In) Event, the transaction shall Terminate (Activate).

For avoidance of doubt, A Knock Out (In) Event shall be deemed to have occurred even if Party A does not provide notice thereof to Party B

**Knock Out (In) Date:**

[]

**Knock Out (In) Barrier:**

[]

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

The Transaction helps user to hedge interest rate liabilities / assets and allows them to convert from Fixed to floating rates or vice versa to potentially reduce interest cost of liabilities or hedge against interest movement impact on fixed income assets to suit internal risk management strategy and market opportunities

- **Exposure from Fixed rate liability:** Can be converted to floating rate liability using a Receiver Swap if user expects floating rates to remain low
- **Exposure from floating rate liability:** Can be converted to fixed liability using a Payer Swap if user is unwilling to take exposure to the movements in the underlying Floating Rate Option
- Convert from one floating rate option to another to better align with cashflows or due to other operational requirements
- The Barrier rationalizes the cost vs payoff adjusted to risk as compared to the vanilla swap structures.

**Illustration:**

**Example of hedging fixed rate (loan interest cost of 6% p.a.) loan via Fixed to Floating Receiver swap with Knock Out Barrier**

- Fixed Rate Payer is Party A, Floating Rate Payer is Party B
- Notional Amount: USD 1 million
- Expiry: 2 years
- Fixed Rate: 6% p.a., A, 30/360
- Floating Rate Option: USD SOFR-COMPOUND p.a., A, A/360
- Spread: 1.8 % p.a.,
- Underlying Asset: USD 2Y SOFR Swap Rate

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- Knock out (Down and Out): 3.6% p.a.

<b>Favorable Scenario</b>						
Period	USD SOFR/COMPOUND Fixing p.a.	USD 2Y SOFR Swap Rate	Party B Receives p.a.	Party B Pays p.a.	Hedged Loan Rate p.a.	Unhedged Loan Rate p.a.
1	4.07%	4.51%	6.00%	5.87%	5.87%	6.00%
2	3.36%	3.68%	6.00%	5.16%	5.16%	6.00%

<b>Unfavorable Scenario</b>						
Period	USD SOFR-COMPOUND Fixing p.a.	USD 2Y SOFR Swap Rate	Party B Receives p.a.	Party B Pays p.a.	Hedged Loan Rate p.a.	Unhedged Loan Rate p.a.
1	4.07%	4.51%	6.00%	5.87%	5.87%	6.00%
2	3.36%	3.40%	-	-	-	6.00%

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

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

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

If interest rates move from their current positions, the market value of the transaction may be adversely affected from Party B's perspective.

##### **Fixing Risk:**

If Floating Rate Fixings move, the NET payments received by 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.

##### **Credit Risk:**

This transaction carries the counterparty credit risk of Party A

**Ordinary Course of Business:**

In the ordinary course of their business, JPMorgan or any of its affiliates or subsidiaries may effect transactions for their own account or for the account of their customers. In conducting such business neither JPMorgan nor any of its affiliates or subsidiaries is obliged to take into account the circumstances of the parties to the transaction or act in a manner which is favorable to them. Such activity may, or may not affect the value of the transaction, but potential investors should be aware that a conflict may arise.

**Potential Conflicts of Interest:**

Potential conflicts of interest may exist in the structure and operation of the strategy and the course of the normal business activities of JPMorgan or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents of their normal business activities.

**Asymmetric Payoff Risk:**

This Transaction is constructed by means of a combination of interest rate swaps and barrier mechanism. 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

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

**Payoff of the transaction:**

Payoff of an Interest Rate Swap (“IRS”) with Barrier transaction is depicted as an example below, where user/ Party B pays fixed rate or floating rate and receives floating rate.

B : Barrier

S : Underlying Asset Rate

**Up and Out Barrier / Down and In Barrier :**

		On Each Fixed Rate Payment Date	On Each Floating Rate Payment Date
Fixed - Floating Receiver Swap	$S < B$	Party B Receives Amount = Notional <sup>1</sup> x Fixed Rate DCF <sup>2</sup> x Fixed Rate	Party B Pays Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing <sup>3</sup>
	$S \geq B$	No Settlement	No Settlement
Fixed - Floating Payer	$S < B$	Party B Pays Amount = Notional x Fixed Rate DCF x Fixed Rate	Party B Receives Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing

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Swap	$S \geq B$	No Settlement	No Settlement
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## Down and Out Barrier / Up and In Barrier:

		On Each Fixed Rate Payment Date	On Each Floating Rate Payment Date
Fixed - Floating Receiver Swap	$S \geq B$	Party B Receives Amount = Notional x Fixed Rate DCF x Fixed Rate	Party B Pays Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing
	$S < B$	No Settlement	No Settlement
Fixed - Floating Payer Swap	$S \geq B$	Party B Pays Amount = Notional x Fixed Rate DCF x Fixed Rate	Party B Receives Amount = Notional x Floating Rate DCF x Floating Rate Option Fixing
	$S < B$	No Settlement	No Settlement

- 1) Fixed notional or Notional as per schedule or outstanding notional depending on the terms of the IRS with Barrier
- 2) Day count fraction corresponding to the respective calculation period
- 3) Fixing observation at period start or period end, as per terms of the IRS with Barrier

## 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 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.

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