



PARA BELLUM ADVISORS

CORPORATE TREASURY · LEAN TREASURY FUNCTION

The Derivative Portfolio Nobody, Had Reviewed in Four Years

SCENARIO TYPE	Corporate Treasury – Mid-Sized Corporate, Lean Treasury Function
ASSET CLASS	Mixed derivative book – FX forwards, interest rate swaps, cross-currency swap
RISK FOCUS	Portfolio redundancy, CSA mismatch, counterparty pricing drift, institutional memory risk
PRIMARY OFFER	Derivatives Portfolio Review™
RELEVANT SERVICES	Derivatives Portfolio Review™ · Structuring-as-a-Service™ · CSA benchmarking · Counterparty consolidation · Portfolio governance redesign

THE SITUATION

A mid-sized corporate with a two-person treasury team managed a derivatives book that had grown piece by piece over several years. FX forwards against offshore revenues. Two interest rate swaps from debt facilities. A cross-currency swap inherited from a refinancing three years earlier that nobody on the current team had been present for.

The team was diligent. They processed settlements, maintained confirmations, and reported to the CFO quarterly. Nothing was obviously broken. But nothing had been reviewed as a portfolio. Each trade existed because it had made sense at the time it was executed. Whether it still made sense – whether it matched a current exposure, whether the CSA terms reflected current credit standing, whether pricing remained competitive – had never been examined.

The derivative book was being maintained on institutional memory and good faith. When the treasurer who had executed several of the original trades left, what remained was a set of live positions with no documented rationale and no independent benchmark.

HOW THE DRIFT SETS IN

Lean treasury teams face a structural constraint that sophisticated counterparties do not: time. A two-person team managing operational treasury responsibilities alongside a growing derivative book has no bandwidth to run counterparty RFPs, benchmark execution pricing, or challenge product suitability on live transactions.

Banks understand this. The relationship is professional and often genuinely constructive – but the incentives are not aligned. The relationship bank prices each transaction against its own book, recommends products it can execute, and amends documentation to protect its own position. Over time, the gap between what the treasury believes it is paying and what it is actually paying widens invisibly. There is no event, no failure, no obvious signal. The drag accumulates across rolls, amendments, and new transactions where the treasury had no independent view.

One of the interest rate swaps had been put in place against a debt facility that had since been partially repaid. The swap notional no longer matched the outstanding debt. The hedge was over-sized relative to the actual exposure, creating a speculative position the treasury had not consciously decided to hold.

WHAT TYPICALLY BREAKS

Positions that have outlived their exposures

Three of six active positions had notional amounts that no longer matched the underlying exposures they were intended to hedge. Two were over-hedged from debt amortisation. One related to a revenue stream now denominated differently.

Execution pricing never challenged

The interest rate swaps had been executed with the same two banks that provided the original facilities. No competitive pricing had been sought on either transaction. Benchmarking against mid-market indicated meaningful spread leakage on both.

CSA terms from a different credit era

The cross-currency swap CSA embedded terms consistent with the company's credit profile three years earlier. A renegotiated CSA reflecting current standing would have materially reduced collateral posting frequency and amount.

No documented rationale for any position

The rationale for each position existed only in the memory of the team member who had left. No hedge mandate, no policy, no record of the exposure the position was intended to address. An auditor query would have been very difficult to answer.

THE STRUCTURAL INSIGHT

The first step was a complete current-state map: every live position, notional, counterparty, CSA terms, maturity, and the exposure it was originally intended to hedge – assembled from ISDA confirmations, settlement records, and debt facility documentation. Mapping current positions against current exposures immediately identified the redundant and over-hedged positions.

The cross-currency swap CSA renegotiation was the highest-value action. The company's improved credit standing, combined with meaningful wallet share to the executing bank, gave the treasury genuine leverage it had not previously recognised or used. The bank agreed to revised terms. Collateral posting frequency and amounts dropped materially within the first quarter post-amendment.

The review also identified that a periodic independent assessment was the structural fix, not a one-off event. A retained structuring arrangement gave a two-person team access to independent structuring capability they could not build or justify internally – quarterly portfolio reviews, pre-execution product assessment, and counterparty benchmarking on all executions above a defined threshold.

INTENDED OUTCOMES

- ▶ Portfolio aligned to current exposures – over-hedged positions identified and remediated; all live positions mapped against documented underlying exposures; redundant positions allowed to run off or restructured where cost-effective.
- ▶ CSA economics reflecting current credit standing – cross-currency swap CSA renegotiated; collateral posting frequency and amount materially reduced; ongoing CSA review built into the retained structuring mandate.
- ▶ Execution pricing benchmarked and competitive – second-quote process introduced on all executions above defined notional; spread compression on the first competitive quote material and immediate.
- ▶ Governance framework replacing institutional memory – hedge mandate drafted and board-approved; review cadence established; portfolio rationale documented so any incoming treasurer understands the book on day one.
- ▶ Structural protection for a lean team – retained independent structuring function in place; the portfolio cannot drift back into the same position over the following years.

WHERE THIS APPLIES

Works best where the treasury team is lean (two to four people) managing a derivative book that has grown incrementally; positions have accumulated over multiple years without a portfolio-level review; CSA terms have not been reviewed since original execution; all or most derivative execution has been conducted with relationship banks without independent benchmarking; and a prior treasurer who held knowledge of the book has departed.

Less relevant where the treasury already runs a formal hedge mandate with documented position rationale; the portfolio has been independently reviewed within the past 12 months; CSA terms have been recently renegotiated; or the team has access to internal structuring capability or a dedicated risk function.

TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – full portfolio audit, CSA economics assessment, exposure reconciliation, and counterparty benchmarking.

Secondary: CSA renegotiation support alongside client counsel, hedge mandate drafting, governance framework design, retained structuring function via Structuring-as-a-Service™.