PARA BELLUM ADVISORS

CORPORATE TREASURY · INFRASTRUCTURE OPERATOR

The Rates Hedge That Passed Every Audit and Still Broke

SCENARIO TYPE	Corporate Treasury – Infrastructure Operator (Operating Phase)
ASSET CLASS	Long-dated fixed-rate debt with interest rate swap overlays
RISK FOCUS	CSA collateral mechanics, liquidity stress under margin calls, capex timing mismatch
PRIMARY OFFER	Derivatives Portfolio Review™
RELEVANT SERVICES	Derivatives Portfolio Review™ · Hedge Rebuild™ · CSA renegotiation · Collateral eligibility redesign · Liquidity stress mapping

THE SITUATION

A large infrastructure operator with long-dated fixed-rate debt and an associated interest rate swap programme had, on paper, done everything right. Swaps were in place against every major facility. DV01 reporting looked clean. The board had signed off. Hedge ratios were high.

The CSA told a different story.

The ISDA master agreement and Credit Support Annex had been signed several years earlier, largely at the bank's drafting. Zero threshold. Daily margin calls. Cash-only collateral eligibility. Those terms were standard at the time and had never been revisited. Nobody had stress-tested what the CSA would demand at the same moment the capex programme needed cash.

HOW THE RISK MANIFESTS

When rates moved sharply, the mechanics the treasury team had never modelled came to life simultaneously. Variation margin calls clustered across multiple counterparties within a short window. The CSA thresholds provided no buffer. Cash-only eligibility meant the team could not post government securities or other liquid assets – only cash. Operating liquidity earmarked for a capital drawdown was redirected to meet derivative margin requirements.

The hedge was economically correct. The rates move was the exact scenario it had been put in place to address. The problem was not direction – it was sequencing. The hedge created a liquidity demand at precisely the moment the business had a competing use for cash.

After the event, the team pulled the CSA and read it – many on the team for the first time. The terms were clear and unambiguous. Zero threshold meant the bank could call margin from the first dollar of MTM movement. No minimum transfer amount meant even small moves generated operational friction. Cash-only eligibility meant no alternative existed when cash was needed elsewhere. None of this was hidden. It had just never been stress-tested against a real operating scenario.

WHAT TYPICALLY BREAKS

Multiple CSAs with no aggregated view

Each CSA signed across different facilities at different times, each with slightly different thresholds, transfer amounts, and eligibility schedules. No aggregated view of total potential margin demand existed across the portfolio.

Liquidity planning with no margin variable

Cashflow forecasts showed debt service and capex but had no line item for margin calls under stress scenarios. The liquidity model was complete for operations and incomplete for derivatives.

Counterparty concentration through default

The counterparty set had drifted over time. One bank relationship represented a disproportionate share of derivative exposure because new facilities defaulted to existing relationship banks without portfolio-level review.

Swap amendments approved on standalone economics

Several swaps had been amended at the bank's request to extend tenor, each approved in isolation. Nobody had modelled the cumulative effect on collateral demand across the portfolio if rates moved materially.

THE STRUCTURAL INSIGHT

Every CSA in the portfolio had been signed on terms largely drafted by the executing bank – normal for a corporate treasury team without dedicated structuring support, but dealer-standard terms are designed to protect dealer economics under stress, not treasury liquidity.

Broadening collateral eligibility to include government securities would have resolved the acute cash pressure. Introducing minimum transfer amounts would have reduced operational friction on small movements. Neither required renegotiating the economic terms of the swap – only the collateral mechanics.

A forward-looking margin model incorporating the full derivative portfolio across a range of rate scenarios and capex timing profiles converted an invisible risk into a governed one. This did not require new software – it required mapping data that existed in separate systems into a single view. The model became a standard input to the quarterly treasury review, giving the board and CFO advance visibility of margin demand under the scenarios most relevant to the business.

INTENDED OUTCOMES

- Collateral mechanics aligned to operating reality – CSA terms renegotiated to include non-cash collateral and sensible transfer thresholds; margin demand under stress reduced and made predictable.
- Treasury able to maintain capex commitments alongside derivative obligations – no more forced choices between operational priorities and margin calls under time pressure.
- Liquidity visibility embedded in governance – margin stress testing in quarterly treasury reporting; board and CFO briefed on derivative liquidity demands before they occur, not during.
- Counterparty concentration brought within policy – portfolio-level review completed and rebalancing plan built into the forward hedging programme without forced unwind.
- No repeat of the audit pass / operational failure combination – the hedge programme now survives contact with the rate scenarios it was designed to address.

WHERE THIS APPLIES

Works best where the treasury runs a material interest rate swap programme against long-dated debt; CSAs were signed at inception and have not been reviewed since; capex or distribution programmes create foreseeable periods of reduced liquidity; the treasury team is lean without dedicated structuring support during documentation; and multiple counterparties exist with inconsistent CSA terms.

Less relevant where derivatives are already centrally cleared or governed by market-standard symmetric CSAs; debt is predominantly floating with minimal swap exposure; liquidity headroom is permanently large relative to potential margin demands; or existing counterparty CSA terms have been deliberately reviewed and accepted.

TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – CSA economics review, collateral eligibility mapping, margin stress testing against the operating liquidity profile.

Secondary: CSA renegotiation support alongside client counsel, collateral eligibility redesign, counterparty concentration review, liquidity governance framework, margin forecasting model.

Illustrative case study for discussion purposes only. Details have been anonymised. Outcomes depend on portfolio structure, counterparty documentation, market conditions, and operational constraints. Not investment advice.