



PARA BELLUM ADVISORS

CORPORATE TREASURY · SINGLE RELATIONSHIP BANK DEPENDENCE

The Bank Knew More Than Treasury Did – and Treasury Paid for It

SCENARIO TYPE	Corporate Treasury – Mid-Sized Corporate, Single Relationship Bank Dependence
ASSET CLASS	Mixed derivative book – FX forwards, interest rate swaps, commodity hedge
RISK FOCUS	Execution pricing opacity, product suitability failure, information asymmetry, cumulative spread leakage
PRIMARY OFFER	Derivatives Portfolio Review™
RELEVANT SERVICES	Derivatives Portfolio Review™ · Structuring-as-a-Service™ · Trade Execution benchmarking · Product suitability assessment · Counterparty RFP support

THE SITUATION

A mid-sized corporate with a two-person treasury team had managed its derivative book for three years through two relationship banks. FX forwards against offshore revenues. Two interest rate swaps from debt facilities. A commodity hedge was put in place when input costs spiked. Every transaction had been made with one of the two banks that provided the company's debt facilities. No competitive quote had been sought on any transaction. No independent view on product suitability had been obtained.

The team was capable and diligent. The banks were professional and responsive. The relationship was comfortable and long-standing.

That was the problem.

HOW THE ASYMMETRY COMPOUNDS

The bank relationship with a corporate treasury is not adversarial – it is professional, often genuinely helpful, and built over years of facility management and goodwill. But the relationship is not symmetric. The bank has a derivatives desk measured on revenue. It prices against its own book. It recommends products it can execute and distribute. When a corporate treasury team calls to roll an FX forward, the price quoted is the price the bank has decided to give – there is no consolidated order book, no reference price, and no way for the treasury to know how far that price is from mid.

Over time, this asymmetry compounds. Each transaction is individually small enough to approve without scrutiny. Cumulatively, across three years of quarterly rolls, swap amendments, and new hedges, the leakage is material. The FX forward programme had been rolled quarterly for three years – six rolls per year, two currencies, the same bank on each occasion. A retrospective benchmarking exercise showed consistent spread leakage on most transactions. No single roll was egregious. Cumulatively, across the programme size and duration, the leakage was significant.

WHAT TYPICALLY BREAKS

The swap amendment that helped the bank

One interest rate swap was amended at the bank's suggestion to extend its tenor by three years, framed as reducing refinancing risk. The extension embedded option value in the bank's favour – a right to call the position under certain rate scenarios that did not exist in the original documentation. Not disclosed as a material term. It was in the documentation.

No process to generate alternatives

The treasury team's capacity to challenge bank recommendations was limited by time, not capability. They had the skills to assess alternatives if presented with them. They had no bandwidth to generate the alternatives themselves. That gap was structural.

The wrong product for the commodity exposure

The bank recommended a vanilla fixed-price swap – lock in the current level, eliminate upside and downside simultaneously. The recommendation was simple and suited to the bank's execution model. A collar would have provided equivalent protection at a fraction of the cost. The commodity cycle subsequently moved materially in the corporate's favour. The swap eliminated every dollar of that benefit.

Pricing opacity on every roll

The bank quoted. Treasury accepted. A retrospective benchmarking exercise against mid-market rates for the same roll dates showed consistent spread leakage on most transactions – entirely recoverable going forward through a straightforward second-quote process.

THE STRUCTURAL INSIGHT

The pattern across all findings was consistent. The bank had more information about derivative economics, documentation terms, and product alternatives than the treasury team. That asymmetry was not the result of bad faith – it was the natural outcome of a relationship where one party does this every day and the other has two people managing it alongside operational responsibilities.

The fix was not to end the relationships. It was to put someone in the room who operated on the same information level as the bank.

The most immediate change was process: a second-quote requirement introduced on all derivative executions above a defined notional threshold. The relationship banks were retained. The competitive tension was sufficient to compress spreads on the first transaction it was applied to.

The commodity swap was reviewed against the corporate's net exposure after accounting for commercial pass-through flexibility. A collar sized to the net economic exposure – rather than the gross input cost – was designed and executed with two banks in competition. A retained structuring function then provided ongoing independent product assessment before execution, second-quote coordination, and periodic portfolio review. It cost less than the spread leakage identified in the first year of benchmarking.

INTENDED OUTCOMES

- ▶ Execution pricing made competitive and transparent – second-quote process in place; spread leakage quantified and materially reduced from the first competitive execution; pricing benchmarks documented in treasury reporting.
- ▶ Product suitability assessed independently before execution – commodity hedge restructured to match net economic exposure; bank recommendations evaluated against alternatives before acceptance.
- ▶ Documentation terms understood before signing – existing interest rate swap asymmetry identified; remediation pathway for the next refinancing; future amendment review process established with independent support.
- ▶ Ongoing independent structuring capability – retained arrangement in place; treasury team's execution capability augmented without additional permanent headcount; bank relationships maintained with competitive tension introduced at the point it matters.
- ▶ The information asymmetry is closed – the bank relationship does not need to end. The structural disadvantage does.

WHERE THIS APPLIES

Works best where all or most derivative execution has been conducted with relationship banks without independent benchmarking; the treasury team is lean (two to four people) without bandwidth for independent product assessment; derivative instruments have been recommended by the executing bank without independent suitability review; swap amendments or new hedges have been executed without a second quote; and spread leakage is suspected but has never been quantified.

Less relevant where the treasury already runs a formal competitive quoting process on all transactions above threshold; an independent structuring function reviews product suitability before bank recommendations are accepted; the derivative book is small and infrequent enough that systematic leakage is unlikely to be material; or the organisation has internal derivatives expertise of comparable depth to its counterparty banks.

TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – execution benchmarking, product suitability assessment, and documentation review across the existing book.

Secondary: Commodity hedge restructuring, swap amendment remediation, counterparty RFP support, and Structuring-as-a-Service™ retained function for ongoing independent coverage.