American College of Investment Counsel
Continuing Legal Education
Calculating Swap Breakage Amounts
via the Model Form Methodology
June 7, 2017

I. Introduction/Background

A. USD Balance Sheet Investors Acquiring Non-USD Denominated Notes

The institutional private debt placement market in the United States is primarily comprised of United States institutional investors and corporate issuers who issue U.S. dollar denominated, fixed income notes. However, a small portion of the notes issued in this United States institutional investor space are foreign denominated ("foreign" meaning non-U.S. dollar).

Thus, we have a scenario where U.S. dollar balance sheet investors, meaning investors that primarily, if not almost entirely, in need of U.S. dollar investments (called "Noteholders") intend to hold a foreign denominated note. A typical means by which a Noteholder may address this foreign currency exposure is for the Noteholder to enter into a "cash flow hedge" between it and a "swap counterparty" whereby the Noteholder agrees to swap the foreign currency payments expected to be received by the Noteholder (those that are originally paid by the issuer) with the swap counterparty in exchange for U.S. dollar amounts. The cash flow hedge is intended to place the Noteholder in a position equivalent to that of an original purchase of U.S. dollar notes.

It is assumed for the purpose of this presentation that the audience has a general understanding of the standard ACIC private placement architecture as it applies to U.S. dollar denominated notes.

II. ACIC Model Form Language for Swapped Notes

A. Background

For our purposes, the typical scenario is as follows:

- Issuer: A business entity that desires to issue to institutional investors generally located in the United States private, fixed income notes denominated in a foreign, non-USD currency.

- Notes: Notes issued by the Issuer. The Notes typically have a final bullet principal payment and pay periodic interest at a fixed rate.

- Noteholder: Institutional investor located in the United States who have USD balance sheets and who intend to purchase the Notes.

- Swap Agreement: A cash flow hedge between the Noteholder and a swap counterparty whereby the Noteholder agrees to swap the foreign currency payments expected to be received by the Noteholder (paid by the Issuer) with the swap counterparty in exchange for U.S. dollar amounts. The Swap Agreement will place the Noteholder in a position equivalent to that of an original purchase of U.S. dollar notes.

The Swap Agreement will have two sets of payments, one due from the Noteholder to the swap counterparty, and a second set of payments payable in the other direction (actual payments are netted). The payments due by the Noteholder under the Swap Agreement are identical to the amounts owed to the Noteholder under the Note. The amounts received by the Noteholder under the Swap Agreement will be the U.S. dollar equivalent of the foreign currency Note, both in terms of principal (called the "notional amount") and interest, determined based on market rates when the Swap Agreement is executed. For example, assume a Note to be issued in the amount of EUR 10,000,000 paying 3 percent semi-annual interest, and at pricing, the market rate in USD was USD 12,000,000 paying 4 percent interest. The payments under the Swap Agreement would appear as follows:

		Paying Party	Amount
1.	At Closing	Noteholder	USD 12,000,000
	At Closing	Swap Counterparty	EUR 10,000,000
2.	Every Six Months	Noteholder	EUR 150,000
	Every Six Months	Swap Counterparty	USD 240,000
3.	At Maturity	Noteholder	EUR 10,000,000
	At Maturity	Swap Counterparty	USD 12,000,000

If the Notes remain outstanding until scheduled maturity, the provisions of the ACIC Model Language will not be employed. However, upon an early payment of the Notes, the Noteholder will need to terminate its Swap Agreement, resulting in the Noteholder and the swap counterparty exchanging a swap breakage payment. The purpose of the ACIC Model Language is to keep the Noteholder in the U.S. dollar equivalent investment position upon such early payment of the Notes, taking into account breakage associated with the Swap Agreement.

Outside of the swap indemnity provisions, the ACIC Model Language provides a convenient means for determining traditional Make-Whole and Modified Make-Whole amounts by listing the economic equivalent of a U.S. dollar note as of the closing date. These reference amounts are used to calculate traditional Make-Whole and Modified Make-Whole payment amounts.

B. Definitions in the ACIC Model Language

The defined terms of the ACIC Form Language are essential to understanding its operation. Set forth below is a review of key defined terms (repeated in italics), with commentary below.

> *"Swapped Note" means any Note that as of the date of the Closing is subject to a Swap Agreement. A "Swapped Note" shall no longer be deemed a "Swapped Note" at such time as the related Swap Agreement ceases to be in force in respect thereof.*

The term "Swapped Note" distinguishes Notes under a common issuance that are hedged in the manner contemplated herein. There could be an issuance where either (a) some notes are issued in U.S. dollars and others in a foreign currency or (b) not all foreign currency notes are held by an entity that entered into a swap.

> *"Swapped Note Applicable Percentage" means 1.00% in the case of a computation of the Modified Make-Whole Amount and means 0.50% in the case of a computation of the Make-Whole Amount.*

The term "Swapped Note Applicable Percentage" is a mirror of the term "Applicable Percentage" used with respect to U.S. dollar denominated, non-swapped notes.

> *"Swapped Note Called Principal" means, with respect to any Swapped Note, the principal of such Swapped Note that is to be prepaid pursuant to Section [8.2] or Section [8.3] or has become or is declared to be immediately due and payable pursuant to Section [12.1], as the context requires.*

The term "Swapped Note Called Principal" is the amount of the foreign currency note that is prepaid before its scheduled maturity.

> *"Swapped Note Called Notional Amount" means, with respect to any Swapped Note Called Principal of any Swapped Note, the payment in U.S. Dollars due to the holder of such Swapped Note under the terms of the Swap Agreement to which such holder is a party, attributable to and in exchange for such Swapped Note Called Principal and assuming that such Swapped Note Called Principal is paid on its scheduled maturity date, provided that if such Swap Agreement is not an Initial Swap Agreement, then the "Swapped Note Called Notional Amount" in respect of such Swapped Note shall not exceed the amount in U.S. Dollars which would have been due to the holder of such Swapped Note under the terms of the Initial Swap Agreement to which such holder was a party (or if such holder was never party to an Initial Swap Agreement, then the last Initial Swap Agreement to which the most recent predecessor in interest to such holder as a holder of such Swapped Note was a party), attributable to and in exchange for such Swapped*

Note Called Principal and assuming that such Swapped Note Called Principal is paid on its scheduled maturity date.

The purpose of the defined term "Swapped Note Called Notional Amount" is to employ the Swap Agreement as a source for an accurate proxy for the U.S. dollar equivalent of the foreign denominated note, intended to be a mirror of the standard U.S. dollar related term "Called Principal."

> *"Swapped Note Discounted Value" means, with respect to the Swapped Note Called Notional Amount of any Swapped Note that is to be prepaid pursuant to Section [8.2] or Section [8.3] or has become or is declared to be immediately due and payable pursuant to Section [12.1], as the context requires, the amount obtained by discounting all Swapped Note Remaining Scheduled Swap Payments corresponding to the Swapped Note Called Notional Amount of such Swapped Note from their respective scheduled due dates to the Swapped Note Settlement Date with respect to such Swapped Note Called Notional Amount, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Swapped Note is payable) equal to the Swapped Note Reinvestment Yield with respect to such Swapped Note Called Notional Amount.*

The term "Swapped Note Discounted Value" is a mirror of the term "Discounted Value."

> *"Swapped Note Reinvestment Yield" means, with respect to any Swapped Note Called Principal of any Swapped Note, the sum of (x) the Swapped Note Applicable Percentage plus (y) the yield to maturity implied by (1) the yield(s) reported, as of 10:00 a.m. (New York City time) on the second Business Day preceding the Swapped Note Settlement Date with respect to such Swapped Note Called Notional Amount, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities ("Reported") having a maturity equal to the Swapped Note Remaining Average Life of such Swapped Note Called Notional Amount as of such Swapped Note Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Swapped Note Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Swapped Note Remaining Average Life and (2) closest to and less than such Swapped Note Remaining Average Life. The Swapped Note Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Swapped Note.*

The term "Swapped Note Reinvestment Yield" is a mirror of the term "Reinvestment Yield."

> *"Swapped Note Remaining Average Life" means, with respect to any Swapped Note Called Notional Amount, the number of years obtained by dividing (x) such Swapped Note Called*

Notional Amount into (y) the sum of the products obtained by multiplying (1) the principal component of each Swapped Note Remaining Scheduled Swap Payments with respect to such Swapped Note Called Notional Amount by (2) the number of years, computed on the basis of a 360-day year composed of twelve 30-day months and calculated to two decimal places that will elapse between the Swapped Note Settlement Date with respect to such Swapped Note Called Notional Amount and the scheduled due date of such Swapped Note Remaining Scheduled Payments.

The term "Swapped Note Reinvestment Yield" is a mirror of the term "Reinvestment Yield."

"Swapped Note Remaining Scheduled Swap Payments" means, with respect to the Swapped Note Called Notional Amount relating to any Swapped Note, the payments due to the holder of such Swapped Note in U.S. Dollars under the terms of the Swap Agreement to which such holder is a party which correspond to all payments of the Swapped Note Called Principal of such Swapped Note corresponding to such Swapped Note Called Notional Amount and interest on such Swapped Note Called Principal (other than that portion of the payment due under such Swap Agreement corresponding to the interest accrued on the Swapped Note Called Principal to the Swapped Note Settlement Date) that would be due after the Swapped Note Settlement Date in respect of such Swapped Note Called Notional Amount assuming that no payment of such Swapped Note Called Principal is made prior to its originally scheduled payment date, provided that if such Swapped Note Settlement Date is not a date on which an interest payment is due to be made under such Swapped Note, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Swapped Note Settlement Date and required to be paid on such Swapped Note Settlement Date pursuant to Section [8.2], Section [8.3] or Section [12.1].

"Swapped Note Settlement Date" means, with respect to the Swapped Note Called Notional Amount of any Swapped Note Called Principal of any Swapped Note, the date on which such Swapped Note Called Principal is to be prepaid pursuant to Section [8.2] or Section [8.3] or has become or is declared to be immediately due and payable pursuant to Section [12.1], as the context requires.

C. Make-Whole Amount and Modified Make-Whole Amount with respect to Swapped Notes

The terms "Make-Whole Amount" and "Modified Make-Whole Amount" mean, with respect to any Swapped Note, an amount equal to the excess, if any, of the Swapped Note Discounted Value with respect to the Swapped Note Called Notional Amount related to such Swapped Note over such Swapped Note Called Notional Amount, provided that neither the Make-Whole Amount nor the Modified Make-Whole Amount may in any event be less than zero. All payments of Make-Whole Amount and Modified Make-Whole Amount in respect of any Swapped Note shall be made in U.S. Dollars.

As the ACIC Model Language used the Swap Agreement as a source for identifying the U.S. dollar equivalent note, and as the intent of the ACIC Model Language is to put the Noteholder in the same position as if the Noteholder had purchased a U.S. dollar note, the Make-Whole Amount and Modified Make-Whole Amount calculations work in the same manner with respect to the Swapped Notes as they do with respect to a U.S. dollar note.

D. Swap Breakage

The intent of the ACIC Model Language is to place the Noteholder in the same position as if the Noteholder had purchased a U.S. dollar note. The key provisions are set forth below:

If any Swapped Note is prepaid pursuant to Section 8.2 or Section 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, then (a) any resulting Net Loss in connection therewith shall be reimbursed to the holder of such Swapped Note by the Company in U.S. Dollars upon any such prepayment or repayment of such Swapped Note and (b) any resulting Net Gain in connection therewith shall be deducted (i) from the Make-Whole Amount or Modified Make-Whole Amount, if any, or any principal or interest to be paid to the holder of such Swapped Note by the Company upon any such prepayment of such Swapped Note pursuant to Section 8.2 or Section 8.3 or (ii) from the Make-Whole Amount or Modified Make-Whole Amount, if any, to be paid to the holder of such Swapped Note by the Company upon any such repayment of such Swapped Note pursuant to Section 12.1, provided that, in either case, neither the Make-Whole Amount or Modified Make-Whole Amount, as applicable, in respect of such Swapped Note may in any event be less than zero. Each holder of a Swapped Note shall be responsible for calculating its own Net Loss or Net Gain, as the case may be, and Swap Breakage Amount in U.S. Dollars upon the prepayment or repayment of all or any portion of such Swapped Note, and such calculations as reported to the Company in reasonable detail shall be binding on the Company absent demonstrable error.

As used in this Section 8.[Y] with respect to any Swapped Note that is prepaid or accelerated: “Net Loss” means the amount, if any, by which the Swapped Note Called Notional Amount exceeds the sum of (x) the Swapped Note Called Principal plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by the holder of such Swapped Note; and “Net Gain” means the amount, if any, by which the Swapped Note Called Notional Amount is exceeded by the sum of (x) the Swapped Note Called Principal plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by such holder. For purposes of any determination of any “Net Loss” or “Net Gain,” the Swapped Note Called Principal shall be determined by the holder of the affected Swapped Note by converting [Applicable Currency] into U.S. Dollars at the current [Applicable Currency]/U.S. Dollar exchange rate, as determined as of 10:00 A.M. (New York City time) on the day such Swapped Note is prepaid or accelerated as indicated on the applicable screen of Bloomberg Financial Markets and any such calculation shall be reported to the Company in reasonable detail and shall be binding on the Company absent demonstrable error.

As used in this Section 8.[Y], “Swap Breakage Amount” means, with respect to the Swap Agreement associated with any Swapped Note, in determining the Net Loss or Net Gain, the amount that would be received (in which case the Swap Breakage Amount shall be positive) or paid (in which case the Swap

Breakage Amount shall be negative) by the holder of such Swapped Note as if such Swap Agreement had terminated due to the occurrence of an event of default or an early termination under the ISDA 1992 Multi-Currency Cross Border Master Agreement or ISDA 2002 Master Agreement, as applicable (the "ISDA Master Agreement"); provided, however, that if such holder (or its predecessor in interest with respect to such Swapped Note) was, but is not at the time, a party to an Original Swap Agreement but is a party to a New Swap Agreement, then the Swap Breakage Amount shall mean the lesser of (x) the gain or loss (if any) which would have been received or incurred (by payment, through off-set or netting or otherwise) by the holder of such Swapped Note under the terms of the Original Swap Agreement (if any) in respect of such Swapped Note to which such holder (or any affiliate thereof) was a party (or if such holder was never a party to an Original Swap Agreement, then the last Original Swap Agreement to which the most recent predecessor in interest to such holder as a holder of a Swapped Note was a party) and which would have arisen as a result of the payment of the Swapped Note Called Principal on the Swapped Note Settlement Date and (y) the gain or loss (if any) actually received or incurred by the holder of such Swapped Note, in connection with the payment of such Swapped Note Called Principal on the Swapped Note Settlement Date, under the terms of the New Swap Agreement to which such holder (or any affiliate thereof) is a party. The holder of such Swapped Note will make all calculations related to the Swap Breakage Amount in good faith and in accordance with its customary practices for calculating such amounts under the ISDA Master Agreement pursuant to which such Swap Agreement shall have been entered into and assuming for the purpose of such calculation that there are no other transactions entered into pursuant to such ISDA Master Agreement (other than such Swap Agreement).

III. Common Amendments to the ACIC Model Form Language

Recent transactions have incorporated amendments to the ACIC Model Language, many of which are worth considering as ongoing incremental improvements.

A. Accrued and Unpaid Interest

We often see the amendment below because it is needed fix to a minor technical point. Remember that the methodology for determining Net Loss or Net Gain is to calculate, upon an early prepayment, the difference between (a) all payments and amounts received by the Noteholder and (b) payments that the Noteholder would have received under an equivalent U.S. dollar note purchase. The 2007 model language omitted accrued and unpaid interest on either side of the formula, one in U.S. dollar and the other in the foreign currency, thus allowing for circumstances where the model language may be off by a slight amount. Therefore, the following amendments are suggested for your consideration:

> *As used in this Section 8.[Y] with respect to any Swapped Note that is prepaid or accelerated: "Net Loss" means the amount, if any, by which the* ***<u>total of the</u>*** *Swapped Note Called Notional Amount* ***<u>and the Swapped Note Called Notional Accrued Interest Amount</u>*** *exceeds the sum of (x)* ***<u>the total of</u>*** *the Swapped Note Called Principal* ***<u>and the Swapped Note Called Accrued Interest Amount</u>*** *plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by the holder of such Swapped Note; and "Net Gain" means*

*the amount, if any, by which the **<u>total of the</u>** Swapped Note Called Notional Amount **<u>and the Swapped Note Called Notional Accrued Interest Amount</u>** is exceeded by the sum of (x) the **<u>total of the</u>** Swapped Note Called Principal **<u>and the Swapped Note Called Accrued Interest Amount</u>** plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by such holder. For purposes of any determination of any "Net Loss" or "Net Gain," the Swapped Note Called Principal **<u>and the Swapped Note Called Accrued Interest Amount</u>** shall be determined by the holder of the affected Swapped Note by converting [Applicable Currency] into U.S. Dollars at the current [Applicable Currency]/U.S. Dollar exchange rate, as determined as of 10:00 A.M. (New York City time) on the day such Swapped Note is prepaid or accelerated as indicated on the applicable screen of Bloomberg Financial Markets and any such calculation shall be reported to the Company in reasonable detail and shall be binding on the Company absent demonstrable error.*

"***<u>Swapped Note Called Accrued Interest Amount" means, with respect to a Swapped Note, the accrued interest of such Swapped Note to the Swapped Note Settlement Date that is to be prepaid or has become immediately due and payable, as the context requires.</u>***

<u>"Swapped Note Called Notional Accrued Interest Amount" means, with respect to any Swapped Note Called Notional Amount, the payment due to the holder of the related Swapped Note under the terms of the Swap Agreement to which such holder is a party attributable to and in exchange for the Swapped Note Called Accrued Interest Amount."</u>

B. Minor Edits and Updates

As the language as evolved over the past nine years, we often see edits that are technical and definitional amendments intended to comport the swap breakage language with the rest of the Note Purchase Agreement, including: fixing section references; updating references to Modified Make-Whole Amount; clarifications to the yield determination methodology; and other stylistic edits. Moreover, if the Note Purchase Agreement allows for tender offers by the Issuer, it would be appropriate to clarify that the swap breakage provisions apply for repaid **<u>and purchased</u>** notes.

IV. Sample Swap Breakage Calculations

The following is a working example of the swap indemnity language. The numbers are purely fictional.

Issuer issues Notes in EUR:

Note Issuance Date:	June 15, 2010
Note Maturity:	June 15, 2020
EUR Issuance Amt:	EUR 28,000,000

EUR Interest Rate:	5.20% (June 15 and December 15)
Exchange Rate on June 15, 2010:	1.15 EUR = 1.00 USD
USD Equivalent on June 15, 2020:	USD 24,348,000
USD Fixed Rate (on the Swap Confirmation):	4.90%

Early Termination:

Assume an early termination on March 15, 2018.

Exchange Rate on March 15, 2008:	0.95 EUR = 1.00 USD
USD Swap Breakage (via Market Quotations)	USD (4,111,111) (paid by the Noteholder to the swap counterparty)

Application of the Swap Indemnity Language is as follows:

1. Net Loss/Net Gain

   If any Swapped Note is prepaid:

   (a) any resulting Net Loss shall be reimbursed to the holder of such Swapped Note by the Issuer and

   (b) any resulting Net Gain shall be deducted from other amounts otherwise owed by the Issuer

Net Loss means the amount, if any, by which:

- the **Swapped Note Called Notional Amount** (with accrued interest) exceeds the sum of

- (x) the **Swapped Note Called Principal** (with accrued interest)(to be converted in USD at current spot rates)
  plus (or minus in the case of an amount paid)
  (y) the **Swap Breakage Amount** received (or paid) by the holder

Net Gain means the amount, if any, by which:

- the **Swapped Note Called Notional Amount** (with accrued interest) is exceeded by the sum of

- (x) the **Swapped Note Called Principal** (with accrued interest)(to be converted in USD at current spot rates)
  plus (or minus in the case of an amount paid)
  (y) the **Swap Breakage Amount** received (or paid) by the holder

In our case:

Swapped Note Called Notional Amount:	USD 24,348,000
Swapped Note Called Notional Amount plus accrued interest:	USD 24,646,263
Swapped Note Called Principal:	EUR 28,000,000
Swapped Note Called Principal plus accrued interest:	EUR 28,364,000
converted into USD at current spot rate:	USD 29,856,842
Swap Breakage Amount (paid by noteholder in this case):	USD (4,111,111)

Swapped Note Called Principal plus accrued interest, converted into USD at spot rate, minus the Swap Breakage Paid is 25,745,731.

Therefore, the "Net Gain" is the difference between (a) USD 25, 745,731 and (b) USD 24,646,263; which is equal to USD 1,099,468. Other amounts payable by the Issuer (either a Make-Whole Amount, or a Modified Make-Whole Amount, or principal and interest payable on the Note) will be reduced by this amount.

V. Alternative Calculation Method under Consideration

At the risk of confusing the audience, this paper will present an alternative approach that is being considered by an ACIC sub-committee. Remember that when the Noteholder seeks an early termination of the Swap Agreement because of a prepayment of the Note, the Swap Agreement will have a Swap Breakage Amount associated with it. This Swap Breakage Amount is the market price to forego any future payments or obligations under the Swap Agreement.

However, the Noteholder and the swap counterparty could agree to include as part of the early termination of the Swap Agreement an exchange of final principal payments (called an "accelerated exchange of notional"). Specifically, the key language is as follows

> *such Settlement Amount shall be effectuated and calculated upon the inclusion of an accelerated exchange and payment of principal amounts and associated accrued and unpaid interest, whereby in connection with and incorporated into the termination of the Swap Agreement and determination of a Settlement Amount, all remaining principal payments otherwise scheduled through the natural duration of the Swap Agreement and associated accrued and unpaid interest shall be accelerated and made (in their respective applicable currencies) at the time of the settlement of such early termination*

To explain, please refer to the simple example of payments under a typical Swap Agreement, assuming a Note to be issued in the amount of EUR 10,000,000, paying 3 percent semi-annual interest, and at pricing, the market rate in USD was USD 12,000,000, paying 4 percent interest. The payments under the Swap Agreement would appear as follows:

		Paying Party	Amount
1.	At Closing	Noteholder	USD 12,000,000
	At Closing	Swap Counterparty	EUR 10,000,000
2.	Every Six Months	Noteholder	EUR 150,000
	Every Six Months	Swap Counterparty	USD 240,000
3.	At Maturity	Noteholder	EUR 10,000,000
	At Maturity	Swap Counterparty	USD 12,000,000

The Noteholder and the swap counterparty could agree to an early termination of the Swap Agreement with an extra agreement to include an **accelerated exchange and payment of principal amounts and associated accrued and unpaid interest**. In our example, this is the final exchange of EUR 10,000,000 for USD 12,000,000. As we presume that the market rates at the time of the early termination are much different from whatever the market rates were when the Swap Agreement was original priced and executed, there will be a market value price associated with this exchange, the combined "swap breakage" amount cost will be different than the Swap Breakage Amount used in the ACIC Model Language.

The swap indemnity between the Noteholder and the Issuer will be the "swap breakage" (when including an accelerated exchange of final principal payment amounts as part of the termination of the swap) and a true-up amount to reflect the foreign exchange exposure of the accrued interest amounts. In fact, the swap indemnity under the alternate amount is algebraically identical to the Net Loss or Net Gain calculations under the ACIC Model Language.

Certain advantages to the alternate approach include (a) fewer rate quotes from various parties as the principal exchange is part of the quotes from the swap counterparty, (b) easier closing mechanics, and (c) less interaction needed with the Issuer, which could be a meaningful benefit under stressful scenarios.

Therefore, at early termination, the cash flows would appear as follows:

Note Issuance Date:	June 15, 2010
Note Maturity:	June 15, 2020
EUR Issuance Amt:	EUR 28,000,000
EUR Interest Rate:	5.20% (June 15 and December 15)
Exchange Rate on June 15, 2010:	1.15 EUR = 1.00 USD
USD Equivalent on June 15, 2010:	USD 24,348,000

USD Fixed Rate (on the Swap Confirmation): 4.90%

Early Termination:

Assume an early termination on March 15, 2018.

Exchange Rate on March 15, 2018:	0.95 EUR = 1.00 USD
Swapped Note Called Notional Amount:	USD 24,348,000
Swapped Note Called Notional Amount plus accrued interest:	USD 24,646,263
Swapped Note Called Principal:	EUR 28,000,000
Swapped Note Called Principal plus accrued interest:	EUR 28,364,000

The Notehoder will agree with the swap counterparty that the swap breakage shall include an **"accelerated exchange and payment of principal amounts and associated accrued and unpaid interest."** For clarity, we can call this to be quoted amount "Alternate Swap Breakage." Alternate Swap Breakage could be positive or negative to the Noteholder, meaning that it could be an amount that the Noteholder will receive from or pay to the swap counterparty.

This, at early termination, the Noteholder will receive the foreign denominated principal and accrued interest from the Issuer (in our example, EUR 28,364,000). The Notehodler will then send this amount, also known as the "Swapped Note Called Principal plus accrued interest," to the swap counterparty. The swap counterparty will send to the Noteholder the USD equivalent, also known as "Swapped Note Called Notional Amount plus accrued interest" (in our example, USD 24,646,263). In addition, there will be an amount, the "Alternate Swap Breakage," that will be either paid by or received by the Notehoder. This amount is then the amount of the indemnity to be passed through to the Issuer. As a matter of algebra, the "Alternate Swap Breakage" should be equal to the calculation resulting from the application of "Net Loss" or "Net Gain" under the traditional method.