

- (7) Report the cap as 3 written call options on 6-month FRA i.e. 6 against 12, 12 against 18 and 18 against 24.

(The rate for the first 6 months is already set on the reporting date i.e. the option already expires.)

Assume the delta ratios of the options are:

6 against 12	0.055
12 against 18	0.17
18 against 24	0.225

Assume the discounting factors (based on the approach in (5)) are:

6 month	0.9674
12 month	0.9346
18 month	0.9009
24 month	0.8673

Assume spot exchange rate is 12

Report in Part I.2 **GBP** ladder:

For the first option -

A long position in the 6 to 12 months time band
= GBP2M x 0.055 x 0.9346
= HKD1,234K equivalent

A short position in the 3 to 6 months time band
= GBP2M x 0.055 x 0.9674
= HKD1,277K equivalent

For the second option -

A long position in the 1.0 to 1.9 years time band
= GBP2M x 0.17 x 0.9009
= HKD3,676K equivalent

A short position in the 6 to 12 months time band
= GBP2M x 0.17 x 0.9346
= HKD3,813K equivalent