An FX Swap is a simultaneous purchase and sale of usually the same amounts of one currency for another with two different value dates (normally spot to forward). This would allow funding charges designated in another currency without acquiring foreign exchange risk. It is common to trade spot-forward or forward-forward.

An FX swap consists of two legs:
- A spot (or forward) fx transaction (short leg)
- A forward fx transaction (long leg).
Two legs are executed simultaneously for the same quantity and they offset each other.

Commonly used scenarios:

- Covering overnight negative balances in one of the accounts where the other currency account had a positive balance to be transferred from. This would reduce overdraft interest that would be paid if not covered.
- When a company has US$ receivables in the future, however would need US$ to pay (for example) new equipment before it receives US$.
This is not a currency swap (an interest rate swap which involves the exchange of two floating rate financial instruments).

Scenario 1:
Company “A” has US$ 100,000 in their US account that they would not need to use for 30 days and at the same time Company “A” borrows CA$ 100,000 out of CA$ line of credit.

Problem: interest cost.
FX spot rate 1.1100
1) Leg one: Company “A” would sell US$ 100,000 @ 1.1100 and proceeds of CA$ 111,000 would be credited to Canadian account
2) Leg two: Company “A” would buy US$ 100,000 @ 1.1100 (+/-* forward points) and in this case for 30 days forward out would pay rate of 1.1110. The cost of buying US$ 100,000 would be CA$ 111,100.

The difference of CA$ 100 would be the cost for 30 day forward; however overdraft cost would be CA$ 273 (CA$ 111,000 x 3% – using the prime rate for this scenario).

Result:
Company “A” saves CA$ 173 dollars in this scenario.

Scenario 2:
Company “A” has US$ receivables however would need to buy US$ for the equipment purchased.

Problem: timing.
1) Leg one: Company “A” would buy US$ @ 1.1100 and pay CA$ 111,000 for a spot purchase
2) Leg two: At the same time Company “A” would sell US$ 100,000 for 30 days @ 1.1100(+/-* forward points) – for this scenario at 1.1110.
Result:
Company “A” would have a credit of CA$ 100 in CA$ account 30 days from now and wouldn’t have fx risk (two different rates when buying US$ and selling US$ once payables are received).

Variations:
- Amounts on both legs of a swap could be the same or different
- Long leg doesn’t need to be a single dated instead could be a time option.

*Forward points are based on interest rate differentials between the two countries. In the forward market, the currency of a country with lower interest rate than Canada will trade at a “premium”. The currency of a country with higher interest rates than Canada will trade at a “discount”. 
These materials were compiled or prepared by The Toronto-Dominion Bank or one of its associated companies (“TD”) solely for the use of the Company to whom it is addressed and not with a view to public disclosure. The information is for discussion purposes only and is not an offer, commitment, recommendation or solicitation by TD to enter into any transaction, including a swap with you, nor is it an official confirmation of terms. TD makes no representation that the information contained in this document is accurate in all material respects or complete. This document and the information contained herein does not purport to identify or suggest all of the risks (direct or indirect), which may be associated with any possible transaction or transactions. Historic information or performance is not indicative of future gains.

The information herein reflects our views as of this date, all of which are accordingly subject to change without notice. Any estimates and projections contained herein have been based upon estimates and projections contained in such documents and third party sources and there is no assurance that such estimated and projections will be realized. Neither TD nor any of its employees, affiliates, advisers or representatives makes any representations (express or implied) as to the accuracy or completeness of such information contained herein and nothing contained herein is or shall be construed or relied upon as, a representation, whether as to the past, present or future. Nothing herein should be construed as tax, accounting or legal advice. TD does not have any obligation to update or otherwise revise the materials and information contained herein.

In the event that you seek to amend or extend any transaction or enter into any swap transaction referred to herein, (x) to the extent that you are not an “eligible contract participant” (“ECP”) within the meaning of Section 1a(18) of the Commodity Exchange Act, as amended (the “Act”), (y) to the extent you have not provided a written representation specifying the provision of the Act or the paragraph of the rule promulgated thereunder that describes its status as an ECP or (z) based on our credit determination at that time, we may not be able to enter into a swap transaction or amendment to the swap transaction which may result in you incurring additional costs and payments.

The products described herein are (i) not insured by the FDIC or CDIC, (ii) not a deposit or other obligation of, or guaranteed by, a depository institution, and (iii) subject to investment risks, including possible loss of the principal amount invested.

TD will not be liable to the Company or any third party, whether for negligence, breach of contract or otherwise, for any loss or damage of whatsoever nature suffered by the Company or a third party (including, without limitation, direct loss or damage, indirect or consequential loss or damage, loss of goodwill, loss of business opportunity, loss of data or loss of profit), arising from TD providing you with this document or the information contained herein.

“TD Securities” is a trademark of The Toronto-Dominion Bank and represents TD Securities Inc., TD Securities (USA) LLC, TD Securities Ltd. and certain investment and corporate banking activities of The Toronto-Dominion Bank and its regulated subsidiaries. The Toronto-Dominion Bank, TD Bank Europe Ltd and TD Securities Ltd. are regulated for investment business conducted in the UK by the Financial Conduct Authority. TD Global Finance is regulated for the conduct of investment business by the Irish Financial Services Regulatory Authority. This document is prepared, issued or approved for issuance in the UK and Europe by TD Securities Ltd on behalf of or as agent and introducer for the TD Bank.