

# Interest Rate And Cross Currency Swaps



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## **Objectives**

*During this programme participants will:*

- Identified where corporates and financial institutions are exposed to interest rate risk
- Covered key market conventions for interest rates
- Looked at where forward pricing comes from and how it relates to key derivative products
- Explored ways to reduce unwanted short-term interest rate risk
- Looked at the uses of interest rate swaps to manage long term interest rate exposure
- *Seen how to use cross currency swaps to manage longer term FX risk*
- *Explored the applications and workings of fundamental option products*
- *Looked at a variety of risk situations and identified suitable solutions to the underlying problems*
- *Seen how to correctly document derivative transactions and discussed ways to mitigate mutual credit exposure*
- *Completed a case study which covers the product areas of the course*

## **Training methodology:**

The programme is highly interactive and it will encourage participation through exercises and case studies, which the delegates will solve individually or in small work-groups.

These activities are designed to allow delegates to practice and to consolidate the concepts that will be discussed during the lectured sessions of the program.

## **Who should attend:**

The programme is designed for:

- Financial Markets Sales
- Market & Credit Risk teams
- Relationship Managers
- Middle Office
- Corporate Treasury staff

## **Course Duration**

2 Days

# Interest Rate And Cross Currency Swaps

## Day One

### Mining for Information

- Where are the market exposures to domestic and foreign interest rates?
- What do banks need to know from a client and vice versa?

**Exercise:** Developing a client information checklist

### Yield Curves

- From where does “the market” get its rates?
- Interest rate conventions
- What are spot, swap and forward yield curves?
- When do we use each specific curve?
- The key factors that may cause a positive, negative, flat or humped yield curve

**Exercise:** Review Quiz

### Managing Short Term Rate Exposure

- Forward-forwards
  - Locking in lending or deposit rates
- Forward Rate Agreements (FRAs)
  - Uses, mechanics and payoff
  - Market practice

**Exercise:** Calculate the payoff from an FRA

- Financial Futures
  - Contract specifications
  - The margin mechanism
  - (Dis)advantages of futures to FRAs

**Exercise:** Financial futures payoff

### Interest Rate Swaps

- Uses of interest rate swaps in both asset and liability management
- Understanding the cash flows
- The composition of a swap:
  - Risk free rate plus swap spreads
  - Understanding the current dysfunction in the swap spreads
- Central counterparty clearing (CCP) versus Over-The-Counter (OTC)
- Calculating mark-to-market and its relevance to both a Relationship Banker and a client

**Exercise:** Mark-to-market an interest rate swap

## Day 2

### Cross Currency Swaps

- Applications of longer-term basis swaps

# Interest Rate And Cross Currency Swaps

- Examples in swapping both domestic and foreign assets and liabilities
- Importance of principal exchanges in cross currency basis swaps
- Where basis swaps make or break a deal

**Exercise:** Price and compare basis swap quotes

- Conversion factors
  - Calculation
  - Importance
    - Where bankers give away free money!
- Cross currency swaps to manage translation risk
  - Buyout pricing
  - Impact of FX and interest rate movements on credit limits
  - Uses in asset swaps and new issues

**Exercise:** Price up a cross currency asset swap

**Exercise:** Calculate the termination value of a cross currency swap

## Options

- Features of fundamental interest rate and FX options
  - Payoff diagrams
  - Caps, floors, collars, structured caps
- Applications and strategies to reduce option cost
- Dual currency deposits and loans
- Appropriateness and suitability

**Exercise:** Decomposing a structured deposit and isolating the risks

## Risk Identification

- We discuss different risk situations.
  - Identify the underlying risks and generate appropriate solutions

## Credit & Documentation

- ISDA: Main points of the Master Agreement and the Deal Confirmation
  - Schedules, important clauses (cross-default, *pari passu*, negative pledge etc)
- Credit exposure: comparing IRS, CCS and options
- Credit risk mitigation
  - Collateral Agreements
  - CSA documentation
  - Mark to Market

## Course Review and Close