Derivatives: Credit & Market Risk Perspectives

Objectives:

During this programme participants will:

- Look at the uses, cash flows and valuations of interest rate derivatives.
- Examine basis swaps and their costs or benefits
- See how cross currency swaps can manage funding and translation risk
- Understand PFE implications, credit and market risk factors of key derivative products.
- Take a deeper look at how rate options can be used to potentially reduce funding costs or enhance yield.
- Cover suitability and appropriateness
- Explore currency options and various structures
- Explore key concepts of XVA
- Discuss key risk mitigants used to manage counterparty risk

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:

- Market & Credit Risk teams
- Senior Relationship Managers
- Middle Office

Course times:

Course Time: 0900 - 1700

Introduction	The Course Director will present a brief overview of the programme and its objectives
Interest Rate Swaps	- Value at Risk concepts - The uses and mechanics of a profit rate swap – Why is interest rate hedging applicable at the moment? – Cash flow calculations – PV01 / PVBP: It's all about discounting! Exercise: Calculating mark-to-market on a profit rate swap intuitively - Counterparty Credit Risk 1 - Potential Future Exposure (PFE) and the risk envelope for an IRS - Expected Exposure: Effects of netting & collateral – Payment structure risk – Is it better to pay or receive from a risk limit perspective?
Bond Markets	- Overview of the fixed income markets – Intuitive bond pricing and its relationship to credit and yield curve changes – Bond price sensitivity - Macaulay versus modified duration - The relationship of DV01 to PV01 – The role of the middle office in valuing and monitoring positions **Exercise:** Bond pricing Duration true or false quiz

Basis Swaps	▪ Single currency basis swaps
	   – Managing yield curve risk in ALM
	
	▪ Cross currency basis swaps
	   – Value drivers (such as supply and demand)
	   – Identifying where they make or break a deal
	   – Relevance to new issues and asset swaps
	
	▪ Conversion factors
	   – Relevance to multi-currency facilities and asset swaps
	
	Exercise: Calculate mark-to-market on a cross currency swap for restructuring
	
	▪ Potential Future Exposure (PFE) and the risk envelope for a cross currency swap

Interest Rate Options	• Fundamental structures
	• Intuitive valuation
	   – Caps, floors, collars
	       ▪ Option-linked funding
	       ▪ Flexi swaps
	
	▪ Ways to reduce premium outlay
	   – Cap spreads
	   – Step-up strikes
	   – Limiting caplet exercise
	▪ Suitability and appropriateness
	▪ Target Redemption Forwards
	
	Exercise: Mini Cases involving profit rate options

Option Pricing Fundamentals	▪ Black-Scholes
	   – Volatility: Historical versus implied
	   – Brief overview of the key Greeks: Delta, Gamma, Theta, Vega

Counterparty Credit Risk	▪ Bilateral risk: Close-out netting and collateral / margining through a Credit Support Annexe (CSA) ▪ Central Counterparty Clearing: the role of the clearing houses and the effect upon swap spreads ▪ XVA Overview: What is it all about?
Course Review	