



PENHALLOW ASSOCIATES LIMITED
A Financial Knowledge Company



Credit Derivatives

Virtual Learning or Classroom Training

Duration 6 Hours

Course Price: On Request

Location: (UK) For Virtual Learning Live Environment via Video Communication.

To book, or, require more information. Please contact Alan Penhallow; e-mail: alanp@penassco.co.uk

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This programme may be of interest to your colleagues.

www.penassco.co.uk

Overview

A good understanding of Credit Derivatives is essential knowledge for a full picture of how the credit markets work – for both private sector borrowers and sovereigns. This is particularly true of the bond markets but also of the loan market. This course explains the key features of the main single-name and index Credit Derivative instruments, the pros and cons of their various applications,

and their risks, including that of the documentation. It also includes an outline of the current regulation.

Learning objectives

Upon completion of this seminar delegates will be able to:

- Understand the key features of single name and index Credit Default Swaps (CDSs)
- Understand their uses and risks
- Understand how they are priced relative to cash instruments
- Understand how they are marked to market, how and why the mark-to-market varies with the different instruments
- How they are regulated

Who should attend

This seminar is aimed at staff in credit and credit-related markets, including Fixed Income, from front to back office. Some knowledge of the fundamentals of cash credit instruments (bonds and/or loans) is assumed. Staff from the following areas would benefit:

- Credit and Fixed Income origination, trading and sales
- Treasurers
- Risk management
- Regulatory Capital management
- Investors
- Analysts
- Regulators and supervisors
- Lawyers

Program level

Program level: Intermediate

Pre-requisites: Some experience or knowledge of credit and/or credit-related markets

Advance preparation: None required

Delivery Method: Group-Live

Agenda

1. Key features of single-name Credit Default Swaps (CDSs)

- Defining a Credit Derivative
- The key terms of the main traded instrument, the single-name Credit Default Swap (CDS): the Reference Entity, spread, Credit Events, settlement, etc.
- Standardised coupons and up-front payments, points up-front

- Bank regulatory capital treatment of CDSs, central clearing, bilateral margining

2. Some applications of single-name Credit Default Swaps (CDSs)

- The evolution of the market up to and after the crisis
- Some CDS applications:
 - Hedging loan and bond exposures
 - Determining the face amount
 - Pricing new bond issues
- The universe of traded names, liquidity issues

3. Documentation and the Settlement process

- The documentation structure: the 2014 ISDA Definitions and Confirmation
- Credit Events – Bankruptcy, Failure to pay, the Restructuring issue, which is most common
- Reference entities and obligations
- The ISDA Determinations Committee role
- The auction process
- Some historical auction prices
- Orphaning risk, the Matalan example
- Continuing documentation problems – e.g. Noble
- Continuing delivery problems – e.g. SNS and now Banco Popular
- 'Manufactured' Credit Events, e.g. Hovanian

4. Pricing and risk managing single-name CDSs

- Pricing CDSs – the Asset Swap spread, the basis, how and why it varies
- Marking a CDS to market
- CS01s and how they vary, convexity
- Curve trades, curve inversions

5. Other types of single-name CDSs

- Subordinated CDSs and how they differ; how and why US bank subordinated debt CDSs differ from others
- Senior v Sub pricing
- Loan CDSs (LCDSs) and how they differ
- Sovereign CDSs: currency issues and quantos, EU regulations on shorting

6. Index swaps and swaptions

- Index swaps: key features, the various indices, name composition, the roll and name changes, basis and skew
- Index applications: bank loan portfolio hedging and macro trading
- Central clearing and margining of Index CDSs
- Index Credit Default Swaptions, key features and applications
- Tranched Index swaps and the Base correlation curve

Trainer Profile



Mike Stafferton

Mike has over eight years' in-house experience in Derivatives and Origination with what was a top Japanese Securities house and over 16 years' experience as an independent consultant in the capital markets and related areas. He has a particular focus on Securitisation and Basel/CRD. He is also an Associate of Moody's.

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