Workshop Title:
Credit Default Swaps

Target Audience:
Traders who take a view on credit as an asset class, Marketers who recommend trade ideas and structures on credit derivatives, Corporates or Investors of Credit Linked Notes (CLN), First-to-Default (FTD) etc., Risk Managers and portfolio managers who wish to hedge credit risk, Middle office team, Regulators who wish understand the implications of credit derivative markets

Duration:
Two day (9.30 a.m. – 5.30 p.m.)

Methodology:
Laptop based practical exercises and course material

Registration Fees:
Rs. 13, 000.00 plus taxes

Workshop Objective:
The objective of the training program is to make participants understand the complexities of Credit Default Swaps as specialized products meant for managing credit risk. The corporate share of total credit-derivatives turnover remains relatively small; however, more treasurers are willing to use credit derivatives as they begin to view risk on an integrated basis and transfer risk-management expertise from interest rate and foreign exchange markets to the credit markets.

Contents:

The financial crisis of our times

- Segments of housing market:
  - Prime
  - Jumbo
  - Alt-A
  - Subprime
- Housing bubble
  - Popular myth of housing being a good investment always
  - Down-payment loophole
  - Lax lending & Predatory lending

Credit Derivatives and its impact on subprime

- Credit Derivatives Overview
  - What's credit risk
  - What's a credit derivative & need for Credit Derivatives
  - Market Description: Participants & Geography
  - Present Constraints and the Future
  - Credit Default Swaps
  - Introduction to CDS
  - CDS Mechanics
  - CDS identification: specifications to be provided
  - The economics of a CDS
  - How has CDS market got affected and has contributed to the crisis?

Credit Derivatives Valuation

- Valuation of Credit Default Swaps
  - Overview of challenges facing valuation of credit derivatives
  - Valuation of CDS
  - Modeling Default Probabilities
  - Another way of conceptualizing CDS MTM
  - Risky Cash Flows
  - Determining Recovery Rates
  - Risky duration approach to MTM
  - An Example of Unwinding Credit Default Swaps
  - A Note on MTM Differences Between Bonds and Default Swaps

Contents (Cont..):

Indices & Basket Products

- Indices & Basket Products
  - Linear Basket
  - Market towards greater standardization: CDS Indices
  - Mechanics of the indices
  - Theoretical value calculation
  - Comparing the CDS index to cash bonds
  - Notes versus swaps
  - First-To-Default Basket (FTDB)
  - Explaining the structure
  - Basket Pricing
  - Sensitivity of Basket trades
  - Basket Swap Strategies

CDOs

- CDOs
  - How are they created?
  - Issues with valuing a CDO
  - Primary & secondary market of CDOs
  - Role of CDOs in the crisis
- Rating Agencies
  - What are Rating Agencies
  - How do they give ratings?
  - Role of Rating Agencies in the crisis
- Caselet: CDO

Structural Roadmap

- CDS Structural Roadmap
  - Basic Mechanics under Definitions
  - Physical Settlement of CDS
  - Asian & European Market Practice
  - Certain other issues
  - Reference Entity
  - Credit Events
  - Obligations
  - Protection Period
  - Reference Obligation
  - Deliverable Obligations
  - Treatment of Guarantees

Hedge Accounting for Credit Derivatives

- Hedge Accounting
  - Methods for testing hedge effectiveness
    - Fair value hedge
    - Cash flow hedge
  - Testing for effectiveness – a case study of the forward plus
    - Simulation of exchange rates
    - Calculation of the forward plus value
    - Calculation of the forward rates
    - Calculation of the forecast transaction's value
    - Dollar-offset ratio – prospective test for effectiveness
    - Variance reduction measure – prospective test for effectiveness
    - Regression analysis – prospective test for effectiveness
    - Retrospective test for effectiveness

RBI Guidelines

- Revision by going through the RBI White Paper