

Capital Markets & Derivatives

DURATION

4 days

TARGET AUDIENCE

This program will form the final module of the Capital Markets Analyst program, and focus on the DCM, ECM and their derivatives.

SUBJECT CONTENT

- **Bond Markets**
 - Instruments of the DCM
 - Bond math concepts
 - Fixed income for issuers
 - Fixed income for investors
- **IR, Credit & FX Derivatives: *Forwards***
 - IRS
 - Credit default swaps
 - Cross currency swaps
 - Non-generic swaps
- **Interest Rate Derivatives: *Options***
 - Caps, floors and collars
 - Swap options
- **ECM**
 - Instruments of the ECM
 - Block trades, placements & IPOs
- **Equity Derivatives**
 - Equity swaps & options
 - Convertible bonds

PARTICIPANT OBJECTIVES

The session studies the financing alternatives in combination with derivatives to give the participants ideas about customized capital raising solutions for the bank's clients. More specifically, it is designed to give participants a good understanding of the mechanics and conventions of the various markets, and how the products traded therein may be applied.

METHODOLOGY

The program will combine presentations, short problem sets, quizzes and cases. Bloomberg demonstrations and computer exercises will also be included within the program.

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
DAY 1: Capital Markets Overview / DCM / IRS			
AM	Capital Markets Overview <i>Presentation and exercises</i>	A discussion about the role of the participants and the various instruments within the capital markets.	<ul style="list-style-type: none"> • The needs of the issuer and investor • Debt–equity choice: DCM v ECM • IBD v GCM functions
	The Debt Capital Markets <i>Presentation and exercises</i>	An overview of the DCM including a comparison of investment grade and non –investment grade and the different bond alternatives	<ul style="list-style-type: none"> • Investment grade v high yield • Bond ratings • The debt alternatives: public v. private v. international markets
	Bond Math Review <i>Presentation and exercises</i>	A review of the mathematics, mechanics and the conventions of the long-term fixed income instruments.	<ul style="list-style-type: none"> • Bond pricing: clean v. dirty prices • Measures of bond yield
PM	Yankee Corporation <i>Case</i>	A US manufacturer contemplating a number of DCM financing alternatives seeks advice on optimal strategy.	<ul style="list-style-type: none"> • Public / foreign / Euro bonds, 144A, MTNs, private placements. • The role of the investment bank
	Fixed Income for Investors <i>Presentation and exercises</i>	An insight into the measurement and management of risk fixed income portfolios.	<ul style="list-style-type: none"> • Types of fixed income investor • Bond risk: duration, DV01 and convexity • Credit risk in bond portfolios
	Boston Fund <i>Case</i>	An institutional investor wishes to quantify the market risk within their fixed income portfolio.	<ul style="list-style-type: none"> • Quantifying and managing risk • Bond trading strategies • Other risks for investors
Evening Assignment	Review Quiz		

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
DAY 2: Interest Rate Derivatives			
AM	Interest Rate Derivatives: <i>Forwards</i> <i>Presentation and exercises</i>	A discussion of the mechanics and how bond issuers use interest rate swaps to modify their exposures.	<ul style="list-style-type: none"> • Mechanics • IRS pricing: an intuitive approach • Applications
	Madison Manufacturing (A) <i>Case</i>	A corporate client with callable debt seeks to take advantage of low current interest rates using two possible ideas.	<ul style="list-style-type: none"> • Rate locks v. forward-start swaps • All-in-cost calculations • Financial v non-financial risks
	Credit Derivatives <i>Presentation and exercises</i>	An overview of credit default swaps and the potential applications for corporate clients.	<ul style="list-style-type: none"> • CDS mechanics • Pricing concepts • Corporate applications
PM	Option Overview <i>Presentation</i>	Terminology and motivations for using options.	<ul style="list-style-type: none"> • Option combinations/ synthetics • Option applications
	Option Pricing <i>Presentation and exercises</i>	A simplified approach to option pricing is discussed in which the concept of volatility is introduced.	<ul style="list-style-type: none"> • Intuitive option pricing • Volatility concepts • Option sensitivity
	Interest Rate Derivatives: <i>Options</i> <i>Presentation and exercises</i>	A floating rate borrower is presented with various ways of managing their exposure to higher rates.	<ul style="list-style-type: none"> • Caps, floors and collars • Premium-reduction strategies • Leverage
	Madison Manufacturing (B) <i>Case</i>	A previously discussed company now considers other interest rate derivatives to manage its future liability risk.	<ul style="list-style-type: none"> • Delayed-start caps • Swap options • Swap option collars
Evening Assignment	Review Quiz		

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
DAY 3: FX Markets, FX Derivatives & ECM			
AM	FX Markets <i>Presentation and exercises</i>	An overview of the FX markets, the players and mechanics as well as an insight into the operation of the forward FX markets.	<ul style="list-style-type: none"> • Spot FX markets • Forward FX • FX swaps • Client motivations
	Cross Currency Swaps <i>Presentation</i>	A US company has been offered two financing opportunities, one domestic, and the other in overseas markets.	<ul style="list-style-type: none"> • Cross currency swap mechanics • FX forwards v. currency swaps • All-in-cost (AIC) calculations
	Liberty Mining <i>Case</i>	A US company is able to finance an Australian acquisition by borrowing in the US dollar market and swapping.	<ul style="list-style-type: none"> • Managing FX risk • FX forwards v currency swaps • Qualitative considerations
PM	Cash Equity Markets <i>Presentation and exercises</i>	A study of the key features and instruments of the cash equity markets and the effects of issuing new shares.	<ul style="list-style-type: none"> • IPOs v seasoned offerings • Block trades and ABBs • Rights issues
	Lexington Inc.'s IPO <i>Case</i>	Lexington seeks the assistance of an investment bank in putting together an IPO with a listing on the NYSE	<ul style="list-style-type: none"> • The IPO process • Investor types • Greenshoe provision
	Risk Profiles <i>Exercises</i>	A review of the concepts covered so far in the form of an exercise requiring client risk identification across a range of asset classes and solution proposal.	<ul style="list-style-type: none"> • Risk and exposure identification • Forward solutions • Option solutions

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
DAY 4: Equity Derivatives & Convertible Bonds			
AM	Equity Derivative Overview <i>Presentation and exercises</i>	An insight into the workings of equity forwards and options.	<ul style="list-style-type: none"> • Equity futures and swaps • Equity options
	Equity Derivative Applications I <i>Caselets</i>	Some short studies of equity derivative applications for corporate clients with a focus on the <i>asset side</i> of the balance sheet	<ul style="list-style-type: none"> • Strategic stake hedging & disposals • M&A related transactions • Regulatory capital enhancement
	Equity Derivative Applications II <i>Caselets</i>	Some short studies of equity derivative applications for corporate clients focusing on the <i>liability / equity side</i> of the balance sheet.	<ul style="list-style-type: none"> • Equity financings • Equity creation • Share buybacks • M&A related transactions
PM	Convertible Bonds <i>Presentation and exercises</i>	A study of the terms and conditions of CBs and hybrids and motivations of issuers/ investors.	<ul style="list-style-type: none"> • Issuer and investor motivations • Exchangeables and mandatory convertibles • Synthetic structures
	Alliance Semiconductor Corporation <i>Case</i>	A California tech company with putable-callable-convertible debt denominated in euros seeks to manage the risk with a structured transaction.	<ul style="list-style-type: none"> • Cross currency swap options • Risks and rewards • Cancellable swaps
	Exam	A 2-hour multi-choice exam covering all aspects of the 4-day session	<ul style="list-style-type: none"> • DCM & ECM • Derivatives