

## Achieving Advisory Status in Derivatives for Corporate Clients

### DURATION

3 days

### SUBJECT CONTENT

- Corporate exposure management policies and strategies
- Derivatives “Building Blocks” product overview:
  - Forward product family (FRA’s, futures and swaps)
  - Option product family (calls, puts, caps, floors and collars)
- A series of cases will review intuitive pricing techniques and the application of the following products as stand-alone solutions or within structured transactions:
  - generic and non-generic interest rate swaps
  - swap options
  - cross-currency swaps
  - par forwards
  - commodity derivatives
- Investor applications for derivatives
- Counterparty credit risk in derivatives
- Accounting issues

### PARTICIPANT OBJECTIVES

This program is designed to develop bankers to improve their client standing by effectively offering derivative solutions to corporate client base within a framework encompassing opportunity identification, risk measurement and delivery.

### TARGET AUDIENCE

Credit officers, relationship managers, junior markets sales people.

It is desirable that participants have a reasonable working knowledge of the fundamentals of financial markets.

### METHODOLOGY

This interactive and applications-orientated course combines presentations, case studies and short problems sets to teach the process of opportunity and exposure identification rather than focusing on technical product information.

## Achieving Advisory Status in Derivatives

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
<b>DAY 1</b>			
AM	<p><b>Welcome and Introduction</b> <i>Presentation</i></p> <p>Case (1): <b>Phyochem (A)</b> <i>Group exercise/ class discussion</i></p> <p><b>Derivative Solutions I: The “Forward” Family Review</b> <i>Presentation and exercises</i></p> <p>Case (2): <b>Phyochem (B)</b> <i>Group exercise/ class discussion</i></p> <p><b>The FX Markets</b> <i>Presentation and exercises</i></p>	<p>A discussion of the various risks faced by corporate clients and a process for how those risks may be managed.</p> <p>Participants are required to identify and measure the risks of a multi-national pharma company with a variety of exposures, including interest rate, FX and commodities</p> <p>The Phyochem (A) case is expanded with a discussion about basic pricing techniques and application of forwards</p> <p>The same corporate expects to refinance in one year’s time, but fears that rates will rise in the interim.</p> <p>A look at how corporates manage FX exposures using FX forwards</p>	<ul style="list-style-type: none"> <li>• Corporate derivative opportunities:               <ul style="list-style-type: none"> <li>- Risk identification</li> <li>- Risk measurement</li> <li>- Client objectives and views</li> <li>- Derivative solutions</li> </ul> </li> <li>• Corporate derivative opportunities:               <ul style="list-style-type: none"> <li>- Risk identification</li> <li>- Risk measurement</li> <li>- Client objectives and views</li> </ul> </li> <li>• Accounting issues</li> <li>• FRA’s &amp; futures</li> <li>• Interest rate swaps</li> <li>• Non-generic swaps</li> <li>• Callable bonds</li> <li>• Forward-starting swaps</li> <li>• Market and credit risk issues</li> <li>• Transaction v translation exposure</li> <li>• FX forwards</li> </ul>
<b>Evening Assignment:</b>	Review Quiz		

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
<b>DAY 2</b>			
AM	Review Homework		
	<b>Derivative Solutions II: Cross-Currency Swaps</b> <i>Presentation</i>	Mechanics, pricing and applications of a cross-currency swap in the context of Phychem.	<ul style="list-style-type: none"> <li>• Engineering a fixed-fixed swap using coupon and basis swap markets</li> </ul>
	Case (3): <b>Continental Cable</b> <i>Group exercise/ class discussion</i>	A European telecom company, seeks to generate synthetic USD debt by combining EUR debt with a currency swap.	<ul style="list-style-type: none"> <li>• Deal structuring</li> <li>• Risks and opportunities</li> <li>• Cross currency swaps v. forwards</li> </ul>
	<b>Derivative Solutions III: The “Options” Family Review</b> <i>Presentation/ exercises</i>	Phychem is revisited with a look at the application of interest rate options.	<ul style="list-style-type: none"> <li>• Caps, floors and collars</li> <li>• Swap options</li> </ul>
PM	Caselets: <b>Bonds with Embedded Optionality and Swap Options</b> <i>Exercises/ class discussion</i>	Studies of the implications of issuing putable and callable debt, and how borrowers can extract value from securities embedding optionality.	<ul style="list-style-type: none"> <li>• Synthesizing, using swap options: <ul style="list-style-type: none"> <li>- putable/callable debt from straight debt</li> <li>- straight debt from putable/callable debt</li> </ul> </li> </ul>
	Case (4): <b>Kozono Mining</b> <i>Group exercise/ class discussion</i>	An Eastern European company seeks to hedge its currency receivables using a range of derivative solutions.	<ul style="list-style-type: none"> <li>• Par forwards</li> <li>• Currency options</li> </ul>
	Case (5): <b>Arvent BioTech</b> <i>Group exercise/ class discussion</i>	A company is offered a structured interest rate transaction to deal with the risks arising from an amortizing floating rate loan.	<ul style="list-style-type: none"> <li>• Libor-in-arrears swaps</li> <li>• Delayed-start options</li> <li>• Risks and rewards</li> </ul>
	<b>Evening Assignment:</b>	Review Quiz	

DAY/ TIME	SUBJECT	DETAIL	POINTS OF EMPHASIS
<b>DAY 3</b>			
	<b>Exotic Options</b> <i>Presentation</i>	An overview of some of the more common type of exotic FX options.	<ul style="list-style-type: none"> <li>• Exotic options: barrier / binary / basket / average rate options.</li> </ul>
	<b>Case (6): EuroAir's FX Risk Management</b> <i>Group exercise/ class discussion</i>	A European airline is offered a number of structured trades to manage its FX exposures	<ul style="list-style-type: none"> <li>• Structured FX forwards:</li> <li>• Forward Plus / Bonus Forward / Knock-out forwards</li> </ul>
	<b>Case (7): Windsor Electrical</b> <i>Group exercise/ class discussion</i>	A company considers ways to manage the risks arising out of issuing a convertible bond issue.	<ul style="list-style-type: none"> <li>• Risk management issues</li> <li>• Correlation</li> <li>• Swap options</li> </ul>
	<b>Phyochem's Commodity Exposure Management</b> <i>Presentation</i>	Phyochem looking to manage its exposure to oil prices using a range of derivatives.	<ul style="list-style-type: none"> <li>• Commodity forwards</li> <li>• Commodity options</li> </ul>
<b>PM</b>	<b>Caselets: Derivative Applications for Investors</b> <i>Group exercise/ class discussion</i>	<p>(i) An institutional investor wishes to enhance their yield with a commodity-linked investment.</p> <p>(ii) A bond investor with a credit view wishes to strip out the market risk with a "par floater" structure</p> <p>(iii) An insurance company considers a variety of structured products linked to interest rates.</p>	<ul style="list-style-type: none"> <li>• Total return swaps</li> <li>• Asset swaps</li> <li>• CMT-CMS structures</li> <li>• Structured notes</li> <li>• Principle protection</li> <li>• Correlation derivatives</li> </ul>
	<b>Risk Profiles: Review Exercise</b> <i>Group exercise/ class discussions</i>	A review of client risk by means of risk profile diagrams and solutions.	<ul style="list-style-type: none"> <li>• Risk profile concepts</li> <li>• Derivative solution review</li> </ul>