

An Introduction to Credit Derivatives, (One Day)

This course is designed for people who would like to know more about the main credit derivative products. This includes what they are, how they work, how the bank uses them and the key terms to a transaction. The course is an introduction and prior knowledge of credit products is not required.

The workshop will provide you with an introduction to:

1. The main credit derivative products, what they are and how they work
2. The definitions used in this market and what they mean
3. What happens if there is a Credit Event
4. How credit default swaps can be valued
5. How dealers use credit derivatives and structure trades
6. Operational issues and the settlements process

Training will be in a workshop format. This will include a mixture of presentation and case study material. The course is designed for up to ten staff. Below is a summary. The content has been placed in a logical sequence and addresses the main issues.

Morning

Credit Derivatives

- Why this market grows
- What credit derivatives are used for
- How the operations team processes credit derivatives

Credit Default Swaps, (CDS)

- You will find out how these products work. Who gets the premium how it is paid, who buys and sells protection, and what happens if there is a credit event.

Case study: Comparing funded and unfunded transactions

CDS Documentation

- CDS are subject to the ISDA Credit Derivative Definitions. You will find out about the key terms on a confirmation. This will include the general terms, the fixed and floating payments, settlement terms, the Effective Date, the Reference Entity, Reference Obligations, Credit Event Notice, Notice of Physical Settlement, Credit Events and Deliverable Obligations.

Case study: Understanding the confirmation

What happens if you experience a Credit Event

- If you experience a Credit Event you need to understand the settlement process, (which may be by way of cash or physical settlement). This includes the timely issuance of the required notices.

Credit Indices

- The trading of credit index products has grown. This is because they offer an efficient way of trading and hedging a portfolio of credit risk. You will find out how index products work, what it costs to trade, what the returns are linked to and what happens if there is a credit event.

Case study: Calculating the settlement amount on an Itrax trade

Afternoon

CDS & Bond Prices

- CDS and bond prices are closely related but may not be identical. You will find out how bond spreads and CDS prices can be compared and why they can differ. This will include reasons why the prices change.

Case study: Explaining how CDS prices will alter given particular market events

Valuation of CDS

- If you trade CDS you will want to value the deals you have. You will learn how you can value these trades using either market prices or recovery and default rates to imply credit spreads.

Case study: Simple valuation of a CDS trade

Trades Using CDS, (Brief overview)

- CDS can be used by dealers to structure a number of trades. You will find out how traders use CDS to structure simple trades.

Case study: Understanding the risk and return on a CDS trade

Operational Risks

- Regulators have expressed some concerns with credit derivatives. You will find out what they are and how the industry is responding. This will include problems with trade data capture, confirmations, assignments and settlements.

End of Workshop & Review

