

# Introduction to Debt Markets, (Two Days)

This course is about bond markets and will explain the following:

- How bonds work and the terms used in bond markets
- The process of asset liability management
- The issuance process & all in costs
- How swaps are used with bonds from both an asset and liability perspective
- The risks that bonds contain
- Structured bonds, what they are and how they work
- How credit derivatives and collateralized debt obligations work
- How & why CDOs have altered issuers & investors use of bond markets

Training will be in a workshop format. This will include a mixture of presentation and case study material.

Below is a summary of the workshop content. Both days have been placed in a logical sequence and address the main products, motivations and risks from a practical perspective. Prior knowledge of debt markets is not required.

## Day One

### **Bond Terminology & Structures**

- Interest calculations and day count conventions
- The cash-flow structure of bonds
- Fixed coupon securities
- Floating rate notes
- Zero coupons bonds
- Flexibility of medium term notes
- Where to find static data
- The importance of ratings

### **Why Issuers use bond markets**

- The different issuers of bonds
- Liability management
- The difference between long & short term financing needs
- Relative cost of funding
- Diversification of funding sources
- Regulatory requirements

### **Why investors buy bonds**

- Different types of investor
- Asset management
- Different risk/reward needs
- Credit, interest rate, foreign exchange risks
- How investors identify value
- Relative value/spreads
- Liquidity

### **The Issuance Process**

- Market conditions
- Selecting the appropriate bond structure
- Issue size
- Role of the manager
- Fees
- The all in cost of funds

### **Interest rate swaps & currency swaps**

- How IRS & CCY swaps work
- How swaps are priced and traded

### **Using swaps with bonds**

- How interest swaps are used with new issues
- Calculating all in costs
- How currency swaps are used with new issues
- Calculating the all in cost
- Influence of the basis swap on pricing

## Day Two

### **Bonds and market risk**

- Introduction to why bond prices change:
- Credit risk
- Interest rate risk
- Simple measures for interest rate risk

### **Asset swaps**

- How fixed coupon bond are swapped
- The Libor based return
- Up-front premium payments

### **Structured bonds**

- Why investors buy them
- The advantages to the issuer
- What the dealer gets
- Documentation
- Selected classic structured bonds –how they work

### **Credit default swaps, (CDS)**

- How a CDS trade works
- What the premium is
- The main terms used
- Risk transfer for structured transactions

### **Collateralised debt obligations & structured debt**

- Market background
- Why these deals are being originated from both an asset and liability perspective
- How these transactions work
- The key terms used including: collateral, ramping, issuing vehicle, (SPV), tranches, (senior, mezzanine, equity), ratings, attachment points and subordination, waterfalls, diversification, role of the manager and rating agency

Transaction examples including :

1. Cash CDO
2. Synthetic CDO
3. CDO squared

### **End of workshop & review**

