

Derivatives for Fund Management, (Two Days)

This workshop is about interest rate swaps, credit default swaps and inflation swaps. The objective is to explain what these products are, how they work and what they are used for. Particular reference will be made to middle and back office issues including:

- Key roles & responsibilities
- The trade lifecycle
- Settlement processes, trade matching/confirmation & reconciliations
- Valuations
- Documentation
- Operational risks

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 twelve staff.

Below is a summary of the workshop. The content has been placed in a logical sequence and addresses the products, mechanics, methodologies, practical uses and risks.

Day One

Introduction

- Explanation of terminology
- Discount factors, present / future value
- Yield curves and market conventions

Interest rate swaps

- Product description
- How they work
- Structures
- Pricing
- Counterparties

What IRS are used for:

1. Hedging

Liability swaps

- New issues
- Hedging debt
- Liability driven investment

Asset swaps

- Fixed rate to floating
- #### **2. Trading: rates & spreads**

Swap valuation

- Mark-to-market
- Comparison with accruals

Credit derivatives

- Introduction
- Market statistics/why credit trading is growing
- The main counterparties

Credit default swaps, (CDS)

- How a CDS trade works
- What the premium is
- The main terms used
- What happens if there is a credit event
- Risks with CDS transactions

How CDS are used

- Institutions that use CDS
- Funded/unfunded exposures
- Simple trading strategies
- Risk transfer for structured transactions

Day Two

Inflation Swaps

- What inflation is and how we measure it
- How an inflation swap works
- What inflation swaps are used for
- Operational issues associated with inflation swaps

Role of operations

- Trade lifecycle
- Trade capture
- Automation & straight through processing
- Core processes and affect on business
- Segregation

Accuracy

- Importance
- Manual & automated errors
- How errors affect core processes & corrupt data
- Operational impact on risk reporting & P&L
- Trade capture

Enrichment

- Information that is added to trades
- Static data
- How errors can occur & their impact

Validation

- Importance as a final check
- How it is done

Documentation, trade agreement & confirmations

- ISDA Master agreements
- Why trades are confirmed
- How trades can be confirmed
- Problems with confirmations
- Trade matching

Responsibility & Accountability

- Escalation processes
- Settlement instructions
- Investigations
- Trade failures
- Updating records

End of workshop & review