DERIVATIVE MARKET FOR BFI's

Course Description

The course will discuss derivative instruments commonly used by bank and in particular about the forward contracts both deliverables and non-deliverables. Market regulation affecting the financial derivatives operations and instruments Description and definition of each instrument

- How to price the instrument
- Market "jargon" and terminology
- Applications of the instruments
- Risk factors of each instruments
- Common product strategies

Course Overview

The course aims to deliver succinct hands on knowledge/skills on Derivatives operations/Trading along with market conventions and regulatory framework.

The program will have two major outcomes/take ways for participants viz:

- Familiarize themselves with all major   derivatives instruments and
- Be able to apply these instruments for trading as well hedging in their books.

Program Details:

Date & Time: 4th (3pm to 6:15pm) & 5th (9am to 12:15pm) Dec 2020
Duration: 6 hours
Fee: Nrs. 3,800 + VAT Per person (10% discount for individual)
Mode: Virtual Training via Zoom or Microsoft Team

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Who Should Attend?

- Treasury managers in banks and financial institutions
- Sales staff employed by banks selling treasury products to
- Support staff, including those involved in back and middle office functions
- Internal and external auditors
- Risk managers/analysts
- Finance managers
- Legal staff

Program Methodology:

- Presentation
- Case studies with examples & numerical
- Interaction/ Discussion
- Q & A

Trainer Profile

Mr. Sarbendra Mishra

Deputy General Manager

Sunrise Bank Ltd.

Mr. Sarbendra Mishra is a seasoned professional with more than 23 years of banking/finance experience. He started his banking career at Nabil Bank in the 1990s and worked there for about 15 years in core operation, trade finance, credit cards, corporate credit and treasury. He joined Sunrise Bank in 2007, and in 2010 moved to Civil Bank as Chief Operating Officer. He has also undertaken various leadership roles. He has rejoined Sunrise Bank as AGM/CFO. He is a former member of the Society of Technical Analysts, London; and the Canadian Securities Institute. He is an active member of the Association for Finance Professional (AFP), Bethesda, Maryland, USA. He holds first class Master's Degree in Business with majors in Multinational Corporate Finance.

Program Content

1. Managing the Risk: The Forward and Swap FX Markets

This session introduces the forward FX rate, outlining how it is calculated and quoted, and why it is an essential risk management tool for many entities with FX exposures. The session then describes how a bank that is providing these instruments to their corporate client base manage the associated exposures by using FX swaps.

- Calculating the outright forward rate and forward points
    - Value dates
    - Premium v discount
    - Understanding the sensitivity of FX swaps to changes in rates
- Time options explained with calculations
- The FX swap market and how swap rates are calculated
- Why banks use forward swaps rather than outright forwards
- "Historic rate" rollovers explained
- Using FX swaps for funding purposes
- Non-deliverable forwards (NDFs)

2. Introduction to Derivative Instruments & Markets

Derivative instruments have become important part of the financial markets, with transactions overwhelmingly dominating cash market activity.

This session explains the economics of derivative instruments, including why and how they are used by end users and banks themselves. Market structure is discussed, together with a discussion on recent regulatory changes introduced in response to the Financial Crisis

- What is a derivative?
- Why is there a market for derivatives?
    - Attributes of derivatives
    - Practical uses of derivatives
        - Risk management applications
        - Creating synthetic positions
        - Leveraged trading
    - Advantages of derivative instruments over cash instruments
- Types of derivative instrument:
    - Forwards and futures
    - Swaps
    - Options
- Understanding the risks associated with dealing in derivatives
    - Market (position) risk
        - Is this a problem?
            - Notional amount v "fair" value
            - What constitutes a "fair" value?
                - Mark-to-market or mark-to-model (or myth!)?
            - Exploring a bank's balance sheet
    - Liquidity risk
    - Counterpart risk
        - Managing the risk for exchange traded derivatives

Program Content continued

    - Market structure: OTC v exchange traded derivatives
        - Why there is a market for OTC derivatives
        - The rise of the "exotic"
    - Market regulation and practice following the financial crisis for OTC derivatives
        - Centralized execution
        - Managing counterparty risk
            - The rationale for central clearing of OTC trades
            - What about non-cleared trades?
                - CSA agreements
- Netting

3. Money Market Derivative Instruments

This session introduces both OTC and exchange-traded money market derivative instruments commonly used in managing risks arising from treasury operations

- OTC forward rates: Forward rate agreements (FRAs)
    - FRA terms explained
    - Locking-in a forward rate
    - Credit risks and how they have been addressed post-crisis
- Short-term interest (STIR) futures contracts
    - The principal contracts
    - The contract specification explained
    - From futures price to forward rate: Locking-in a forward rate
- Creating longer term rates with strips, packs and bundles
- The changing face of money market derivatives instruments with the introduction of the new benchmark risk-free rates linked to overnight rates
- Using money market derivatives to manage bank treasury risks

4. Swaps and their Applications

The swap market has witnessed considerable change since the Financial Crisis. This session explores the mechanics of swaps, how the market has changes over the past twelve years, including the most recent developments and how they are used to manage bank treasury risk and corporate exposures

- Introduction to single currency interest rate swaps (IRS)
- Market developments:
    - The rise of the OIS market
    - Market adjusted coupon (MAC) swaps
    - Exchange-traded swaps
- Currency swaps
- Understanding the role swaps play in managing treasury risks
- Swaps and their role in generating the discount curve

Program Content continued

Non-Linear Derivative Instruments

4. Introduction to Options

Option provide another dimension to the management of financial risk. This session will provide delegates with the framework to be able to understand how they can be used to manage currency and interest rate risk covered in later sessions.

- What is an option?
- Option terminology
  - Exercise types
  - Option "moneyness"
  - Intrinsic v time value
- Understanding the payoff profiles

5: Hedging Foreign Currency Exposures

International trading companies are exposed to exchange rate risk. One method to manage this risk is to "cover forward" which has been the traditional approach. However, there are certain limitations with suing this approach and this session explores how options, either individually or in combination, can be used to better these exposures.

- Understanding typical corporate FX exposures
- Managing FX exposures with FX forward contracts
  - The problem with "forward only" cover
- FX option primer
- Using vanilla currency options to retain the up-side
- Tailored solutions for non-financial institutions: Creating zero premium products with option combinations
  - Collars, range-forwards, forward-bands and cylinders
  - Participating forwards
  - Ratio forwards
  - Break-forwards, FOXs and forward reversing options

6. Interest Rate Options

- *This session looks at interest rate options, including options on swaps (swaptions) and how they can be used to manage interest rate risk*
  - How are interest rate options different?
  - Caps, floors and collars explained
  - Using swaptions to reduce the cost