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# SWAPS – THE NEW WORLD

**Background**

The financial crisis and the ensuing avalanche of regulation has changed swap valuation almost beyond recognition over the last few years and has greatly increased its complexity. One result is that dealing and settlement arrangements are often different and importantly the same swap can have different valuations depending on which bank is the counterparty.

This course explains the new world of Swaps : what has resulted, how the new methodology works and its many significant consequences. It includes the key regulations affecting the swap market in Europe and the US. It is a key course for anyone seriously involved with Swaps whether as Dealer, Investor, Lawyer or Auditor.

**Target audience**

Any staff dealing with swaps at entities that use or are contemplating using swaps:

- Swaps and Fixed Income Brokers and Dealers
- Bankers, Treasury and ALM managers
- Back Office support staff
- Fund Managers
- Institutional Salesmen
- Lawyers and Accountants involved in Swaps (CPD credit)
- Compliance Officers
- Pension Fund Managers and Actuaries using Swaps
- Real Estate Investors

**Existing knowledge**

Delegates should preferably have an understanding of the key features of swaps.

**Content**

**Review of Swap Basics**

- Market structure and users
- Quotation convention.
- Types of Swaps: Interest Rate, Currency, Asset, Diff, Circus, Credit Default etc
- Pricing method, dealing and old valuation.

**Before the crisis**

- How discount and forward rates came from the same curve LIBOR curve
- The credit issues that were always there

**After the crisis**

- Illiquidity in the IBOR market, the move to overnight lending between banks and the consequent emergence of Overnight Index Swaps (OIS) as the new benchmark swap rate
- Bootstrapping forward ONIA rates (Exercise)
- The continued demand for IBOR swaps and the consequent importance of ONIA-IBOR interest basis swap spreads
- Deriving forward IBORs using basis swap spreads and pricing an IBOR swap (Exercise)

**Collateralised Swaps**

- Counterparty credit risk management with cash collateral via Credit Support Annexes (CSAs)
- Non-cash collateral, haircuts and wrong-way risk
- Residual counterparty risk
- The regulatory requirement to use Central Counter-Parties (CCPs)
- Additional requirements re initial margin
- The various CCPs – LCH, etc and their impact.
- Swap execution – Organised Trading Facilities (OTFs) and Swap Execution Facilities (SEFs)

**Uncollateralised Swaps**

- Why corporates resist collateralisation and their exemption from using CCPs
- Why uncollateralised swaps require a Funding Valuation Adjustment (FVA): incorporating the bank's term funding spreads and how changes to the spreads affect swap valuation (Exercise)
- The limited availability of swap counterparty credit risk hedging instruments
- Credit Valuation Adjustment (CVA) charge: modelling the expected counterparty credit risk exposure from a swap, incorporating the expected credit-riskiness of the counterparty and the risk that it might rise in a CVA fee (Exercise)
- Debt Valuation Adjustment (DVA): IFRS 13 and how a bank's credit-riskiness can affect its valuation of a swap (Exercise)
- How FVA, CVA and DVA interact and may offset each other; hedging approaches

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| **Duration** | 1 day |
| **London** | 6 February 2013<br>19 June 2013<br>17 October 2013 |
| **Fee** | £ 650 + VAT |

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