

CAPITAL MARKET

CREDIT DERIVATIVES

PROGRAMME DURATION	MODE OF DELIVERY	HRD CORP SCHEME	PROGRAMME FEE
06 HRS 50 MIN	ONLINE LEARNING Self-Paced	SBL - KHAS	RM1, 200.00 NETT

SECTIONS & DURATION AT A GLANCE

This table provides an overview of the sections covered and the duration of each topic:

SECTION NO	SECTION TITLE	DURATION
Section 1	Credit Derivatives – An Introduction	01 Hrs 15 Min
Section 2	Credit Derivatives – Single-Name CDS	01 Hrs 00 Min
Section 3	Credit Derivatives – CDS Indices	00 Hrs 50 Min
Section 4	Credit Derivatives – CDS Valuation	01 Hrs 00 Min
Section 5	Credit Derivatives – CDS Documentation & Settlement	01 Hrs 00 Min
Section 6	Credit Derivatives – Variations	01 Hrs 00 Min
Section 7	CDS Relative Value Trading – Scenario	00 Hrs 45 Min
👉 CLICK Title for Section Details		TOTAL DURATION 06 Hrs 50 Min

- 30 Days access are given to participants to complete the entire programmes
- This is an Online Learning; participants are learning at their own paced

THE CONTENTS

SECTION 1

Credit Derivatives – An Introduction

Prerequisite Knowledge	Derivatives – Markets
Section Level	Introductory
Section Duration	75 Minutes

Overview

Credit derivatives allow one party to transfer an asset's credit risk to another party without transferring ownership of the underlying asset. This section outlines the basics of credit derivatives and examines the structure of a basic credit derivatives trade, known as a credit default swap (CDS). Other topics covered include the development of the market pre- and post-financial crisis, and the risks associated with undertaking credit derivatives transactions.

Objectives

On completion of this section, you will be able to describe the structures and applications of: -

- Recognize credit as a separate asset class that can be traded
- Identify the basic structure of a credit derivative (credit default swap)
- Recall the evolution and development of the credit derivatives market

The Outline

TOPIC 1

CREDIT AS AN ASSET CLASS

- Credit Risk & Bonds
- Credit Risk & Spreads
- Credit Spreads & Asset Swaps
- Credit as an Asset Class

TOPIC 2

CREDIT DERIVATIVE STRUCTURES

- What is a Credit Derivative?
- Credit Default Swaps (CDS)
 - Credit Default Swaps
 - Premiums & Spreads
 - Payments & Settlement
- Compensation Payment
- Reference (Deliverable) Obligations
- Single & Multi-Name Default Swaps
- Protection Period
- Credit Events

TOPIC 3

MARKET DEVELOPMENT

- Credit Derivatives Pre- & Post-Crisis
- Market Players
- Notional Values & Market Size
- Trade Compression
- Central Clearing
- Netting

SECTION 2

Credit Derivatives – Single-Name CDS

Prerequisite Knowledge	Credit Derivatives – An Introduction
Section Level	Intermediate
Section Duration	60 Minutes

Overview

Single-name credit default swaps are comparatively simple instruments when compared with the complex and opaque structures that once adorned the credit derivatives market. This section outlines the key features and trading practices surrounding these instruments.

Objectives

On completion of this section, you will be able to: -

- Identify the features of single-name credit default swaps
- Recognize the main market practices in the single-name CDS market

The Outline

TOPIC 1  **EQUITY OPTIONS**

- Overview of Single-Name CDS Structures
- Dates & Maturities
 - Lookback Periods
- Premium Rates & Upfront Payments
- Accrued Interest
 - Upfront Payments
 - Event Determination Dates
- Settlement & Documentation
- Restructuring
 - Modified Restructuring

TOPIC 2   **WARRANTS**

- Reference Entities & Obligations
- Trading Volumes
- CDS Currencies & Trade Sizes
- Market Quotations
- Future of the Single-Name CDS Market

SECTION 3

Credit Derivatives – CDS Indices

Prerequisite Knowledge	Credit Derivatives – Single-Name CDS
Section Level	Intermediate
Section Duration	50 Minutes

Overview

Index swaps allow participants to increase or decrease general credit exposure, although the creation of credit indices has always been directly connected to the trading of index products. There is significantly more liquidity in these products than in single-name CDS transactions. This section looks at the construction of credit indices, the mechanics of index swaps, and the market environment.

Objectives

On completion of this section, you will be able to: -

- Identify the key features and mechanics of credit indices
- Recognize the market environment for credit index swap trading

The Outline

TOPIC 1  **OVERVIEW OF CDS INDICES**

- What Is a Credit Index?
- Features of CDS Indices
- Index Construction
- Credit Index Terms
- Key Terms of Major Indices
- CDS Index Trade: Example

TOPIC 2  **MARKET ENVIRONMENT**

- Index Swap Trading
 - Liquidity of Index Swaps
- Trading Strategies
- Market Levels
 - Interpreting Market Levels
 - Determining Closing Levels
- Composite vs. Theoretical Levels

SECTION 4

Credit Derivatives – CDS Valuation

Prerequisite Knowledge	Credit Derivatives – CDS Indices
Section Level	Intermediate
Section Duration	60 Minutes

Overview

CDS pricing is theoretically straightforward – whatever is paid as protection premium should be offset by the expected gains from contingent default payments. However, calculating the present values of these payments involves more subtle assumptions about default probabilities and recovery rates. There must also be some method for calculating the fair value of the upfront payments generated by differences between theoretical spreads and fixed coupons. This tutorial outlines the key calculations in CDS pricing and shows how valuation has coalesced around standard pricing models and simplified assumptions.

Objectives

On completion of this section, you will be able to: -

- Identify the role of the credit triangle in pricing credit spreads
- Recall how credit default swap pricing is broken into the valuation of protection and default streams
- Recognize how the risk-neutral default probabilities and recovery rates generated by standard pricing models are convenient rather than accurate

The Outline

TOPIC 1 OVERVIEW OF CDS PRICING

- The Credit Triangle & Single Period Pricing
- Binary Outcomes
- Present Value of Payment Legs
- Spread Payments
- Accrued Interest

TOPIC 2 DEFAULT & SURVIVAL PROBABILITIES

- Overview of Default & Survival Probabilities
- Default & Survival Probabilities: Example
- Survival Probability: Formula
- Hazard Rates
- Default Intensities

TOPIC 3 OTHER PRICING FACTORS

- Upfront Payments
- Standard Coupons
- Changing Default Intensities
- CDS Calculators
- Recovery Rates
- Risk-Neutral Pricing

SECTION 5

Credit Derivatives – CDS Documentation & Settlement

Prerequisite Knowledge	Credit Derivatives – CDS Indices
Section Level	Intermediate
Section Duration	60 Minutes

Overview

A well-understood and widely accepted CDS documentation framework and a robust credit event auction system have evolved under the auspices of ISDA. This framework, periodically adjusting in response to market challenges, has standardized trading practices and settlements. This section outlines the key features of the ISDA documentation framework and shows how auction settlement is used to determine recovery rates.

Objectives

On completion of this section, you will be able to: -

- Describe the documentation framework for credit default swaps and show how this framework has developed
- Explain how auction settlement is used to determine recovery rates

The Outline

TOPIC 1  **CDS DOCUMENTATION**

- Standardization of Documentation
- CDS Documentation Framework
- ISDA Definitions & Confirmations
- Protocols
- Post-Crisis Changes
 - Financial Reference Entities
 - Asset Package Delivery
 - Standard Reference Obligations (SROs)
- 2014 Protocols
- CDS Quotations: Examples

TOPIC 2   **CDS AUCTION SETTLEMENT**

- Overview of Auctions
- Auction Participants
- Auction Mechanics
- Auction Price Determination
 - First Stage
 - Second Stage

SECTION 6

Credit Derivatives – Variations

Prerequisite Knowledge	Credit Derivatives – Documentation & Settlement
Section Level	Intermediate
Section Duration	60 Minutes

Overview

This section explores the key relationship between different credit products and introduces some of the lesser-known variations in the credit derivatives market.

Objectives

On completion of this section, you will be able to: -

- Categorize the different types of CDS product into simple and more complex variants
- Name the different types of CDS product based on portfolios of underlying names
- Identify the key characteristics of synthetic CDOs

The Outline

TOPIC 1 OVERVIEW OF CDS VARIATIONS

- Theoretically Identical Instruments
- Basis
- Basis: Influencing Factors

TOPIC 2 SIMPLE CDS VARIATIONS

- Simple Variations of CDS Structures
- Loan CDS (LCDS)
- Recovery Products
 - Fixed Recovery Swaps (Digital Default Swaps)
 - Recovery Locks
 - Recovery Swaps
- Constant Maturity CDS (CMCDS)
- CDS Options

TOPIC 3 PORTFOLIO PRODUCTS

- Overview of Portfolio Products
- Average Baskets
- N-to-Default-Swaps
- Total Return Swaps
- Credit-Linked Notes

TOPIC 4 SYNTHETIC COLLATERALIZED DEBT OBLIGATIONS (CDOs)

- Overview of CDOs
- CDO Cash Flow Waterfall
- Tranche Thickness
- Attachment & Detachment Structures
 - Funded Tranches
 - Unfunded Tranches
- Index Tranches
- Correlation
- Copulas

SECTION 7

CDS Relative Value Trading – Scenario

Prerequisite Knowledge	A solid knowledge of credit derivatives and the associated pricing principles is assumed. You should be familiar with standardized single-name CDS transactions
Section Level	Intermediate
Section Duration	45 Minutes

Overview

This scenario focuses on two hypothetical CDS relative value trades (a pairs trade and a curve trade), using them to show you how credit derivatives can be applied in practice. At different points in the scenario, you will be asked to perform calculations or look at potential alternative actions for the trader involved. At the end of the scenario, you will have a solid understanding of how CDS trades such as those described can be constructed and evaluated.