

# Understanding & Managing Risks of Treasury Products

3 Days

## COURSE OVERVIEW

Banks, investors, companies and other financial players can take any position they want through market products and can similarly manage almost every risk they need to. However, in order to harness the opportunities available, treasury managers need a thorough understanding of how the financial system and individual products work, and the rationale and strategies that financial players employ.

This intensive training course is designed to offer treasury executives, whether in corporations or financial institutions, a thorough coverage of the techniques available for modern treasury management.

## LEVEL

Intermediate

## WHAT WILL I GET OUT OF IT?

By the end of this course, participants should be able to:

- Have a broad understanding of the products traded in a modern capital market, including their application, risk nature and pricing principles
- Analyse money market and foreign exchange instruments, and their applications
- Understand the basic pricing mechanisms and the participants in each market
- Understand the principles behind the trading and application of derivatives and their linkage to the underlying products

## WHO'S IT FOR?

- Treasury & Capital Markets Sales Personnel
- Treasury & Capital Market Economists
- Corporate Treasury executives
- Treasury Analysts
- Treasury Operations Managers
- Treasury Middle Office Officers
- Risk Managers
- IT Staff
- Internal & External Auditors

## COURSE CONTENT

### *Part I: Banking Environment*

#### **Introduction to Financial Risk Management**

- What is financial risk?
- What is arbitrage?
- What is hedging?
- What tools are available to reduce our risk?

#### **The Capital Markets**

- What are capital markets
  - What is their role?
- The role of banks
  - Disintermediation & the changing role in providing finance

#### **Types of Markets**

- Spot
- Forward
- Options

#### **Users of Treasury Risk Management Products**

- Financial institutions
- Corporations
- Fund managers
- Government

#### **Hedging**

- Static & dynamic hedging
- Active or passive hedgers
- Basis risk
- The role of speculating

### *Part II: Spot Instruments*

#### **Interest Rates Fundamentals**

- Time value of money
  - Present & future value
- Forward pricing
  - Determining an interest rate from the forward price
- Discounting streams of income
- Bond pricing
  - Using yield to maturity
  - Using a zero curve
- Yield curves

#### **Interest Rate Tools**

- Money markets (loans & deposits)
- Short term securities
  - T-bill
  - Certificates of deposit (CDs)
  - Commercial paper (CP)

- Short term interest rate benchmarks
  - Determination
  - Usage
- Long term debt securities
  - Bonds
  - Floating Rate Note (FRN)
  - Hybrid debt securities
- Convertible bonds
- Dual currency bonds
- Forwards
  - Forward rate agreement (FRA)
  - Futures
- Comparison between Forward, FRA and Future
  - Brief overview of interest rate derivatives

### **Foreign Exchange Fundamentals**

- Structure and participants in the FX Market
  - FX market quotes
  - Direct & indirect quotes
  - Base & terms currency
  - Market-making
  - Bid/offer spread
- Cross rate calculation

### **Foreign Exchange Tools**

- Currency loan and deposit
- Spot FX
- Forward FX
  - Discount/premium
  - Interest rate parity
  - Using an FX forward to hedge a foreign currency loan
- FX swaps
- FX futures
- Non Deliverable Forward (NDF)
- Brief overview of FX derivatives

## ***Part III: Derivatives***

### **Introduction to Derivatives**

- What are derivatives and why have they displayed extraordinary growth?
- What makes derivatives special?
- Types of derivatives
  - Forward commitments vs. contingent claims
  - Exchange traded vs. over-the-counter (OTC)

### **Introduction to Futures**

- What are futures contracts?
  - Deliverable
  - Cash settlement
- Structure of the market
- The exchange and clearing house
  - Trading

- Valuation
- Margining

### **Introduction to Options**

- What is an option and how do they work?
- Terminology
- Option types and styles
- Users of options
- Volatility
- Pricing principles of options

### **Interest Rate Derivatives**

- Forward Rate Agreements (FRAs)
  - How FRAs work
- Interest rate futures
  - Short term interest rate futures
  - Bond futures
  - Interest Rate Swap futures
- Interest Rate Swaps (IRS)
  - What is a swap?
  - How a swap is priced – the principles
  - Asset and liability swaps
- Interest rate options
  - Caps, floors and collars
  - Swaptions
  - Bond options

### **Foreign Exchange Derivatives**

- Forward foreign exchange
- Foreign exchange futures
- Cross currency swaps
  - Swap types
  - Basis swaps
- Foreign exchange options