

**Association of Leasing and Financial Services Cos.
and
Asian Securitization Forum**

Two day program on

**Credit Derivatives and
Synthetic Securitisation**

Mumbai, India

June 3-4 2003

At Hotel Taj Lands End, Bandra, Mumbai

- ◆ Credit derivatives and synthetic CDOs are globally used devices used by bankers and financial intermediaries to shift credit risks on their credit assets. The business has grown from naught to USD 2 trillion in less than a decade.
- ◆ The RBI has already indicated its intent to allow credit derivatives in India.
- ◆ Are you ready to exploit this instrument to your advantage and be ahead of your competition?
- If you want to learn all about this complex financial instrument, this workshop is for you!
- Core faculty an internationally established expert in the relevant field.

The Sponsors

The **Association of Leasing and Financial Services Cos.** is the largest body of non-banking financial services companies in India, with membership exceeding 500 top-ranking players.

Education, interface with regulators, standardisation of industry practices and promotion of mutual understanding are the basic aims of the Association. The Association has played a key role in the healthy development of the non-banking financial services sector in the country.

Education is one of the focus areas of the Association as it believes that knowledge is the foundation of a healthy industry. From courses centring on non-banking functions as it has been offering in the past, the Association has now broad-based its training focus to generic issues in credit and financial services sector.

The Association recently assisted the formation of an Asia-wide body - **the Asian Securitization Forum**. The Asian Securitization Forum [<http://www.asian-securitization.com>] is a premier body of securitization professionals in Asia and the Pacific, headquartered in Mumbai, India.

The purpose of the Forum is to accelerate the process of healthy growth of securitization in the region. The Forum intends to achieve this purpose through a multi-directional effort - more interaction and sharing of information among industry participants, investors and the intermediaries, standardisation of practices in the industry for health development, interface with the regulators for legislative changes where required, healthy and positive prudential regulations, meaningful accounting standards, etc.

The Governing Body of the Forum includes securitization experts and professionals from different countries in Asia. Membership of the Forum is spread all over the region.

Why this course?

The use of credit derivatives to transfer and spread credit risk is growing phenomenally. Used for hedging, arbitraging, or better management of economic capital, credit derivatives are today the fastest growing segment of the OTC derivatives market. If you have been watching it from a distance and getting intrigued, it is better to get into it headlong.

This course, offered in several countries, has helped several attendees in the past to successfully implement synthetic CDOs. This is an extract from a mail from one of our attendees from Australia : "I would also like to say thank you. When I did that course, I really had only been focused on Single Name CDS. Your course opened my mind to what might be achieved with SCDOs and through very good luck, (name of the Bank) happened to get seriously into that game middle of last year. Since then, largely as a result of the knowledge I gained at your course, I

structured (with my NY colleagues) and distributed into Australia, (name) Arbitrage Synthetic CDO ...Once again, thank you for "showing me the light". My career path has been materially altered as a result of our chance meeting."

Credit derivatives, barely 9 years old, are already seen as a valuable risk management instruments for bankers in advanced financial markets. Securitisation has been around for a longer time, and is still changing the face of banking all over the World. When the two instruments come together, the result is synthetic securitisation, which is like commoditization of credit risk. While the risk seller seeks protection against credit risk, for the risk seller, it is the fastest way of synthetically creating a credit book.

Synthetic securitisations are very new to the Asia-Pacific region, outside of Japan. While there have been few deals so far, the level of interest is tremendous.

The RBI has recently come out with a draft of the Guidelines on use of credit derivatives. Indian market has not seen any synthetic activity so far, but with the regulator demonstrating an open mind, it is certain that credit derivatives will develop in India.

The purpose of this course is to allow attendees to get initiated into this field and acquire enough understanding to be able to write deals.

WHO MUST ATTEND

- Treasury and risk management teams in banks and financial intermediaries
- Treasury and risk management professionals from leading corporations
- Institutional, fixed income investors and fund managers, asset managers and investment professionals
- Credit risk insurers, guarantors, alternative risk transfer professionals
- Banking regulators and supervisors
- Credit rating agency professionals
- Accountants and tax counsels advising on securitisation and credit derivative transactions

Faculty:

The core faculty is **Vinod Kothari**. Vinod Kothari has rapidly gained international recognition as one of the World's leading experts on securitisation, credit derivatives and related issues.

Vinod Kothari is the author of several books:

- Securitisation, Asset Reconstruction and Enforcement of Security Interests, 2003
- Credit Derivatives and Synthetic Securitisation, June 2002
- Securitisation: The Financial Instrument of the New Millennium Oct 1998
- Lease Financing and Hire purchase, 4th edition, 1996

Vinod Kothari is well-known to Indian audience as a trainer on financial services, but over last 4 years, the World has been his market. Vinod Kothari has conducted training in London, Sydney, South Africa, Malaysia, Singapore, Hong Kong, Colombia (South America), Zambia, Sri Lanka, Bangladesh, Egypt, Jordan, etc.

Vinod Kothari's web sites on securitisation [<http://www.vinodkothari.com>] and credit derivatives [http://www.credit-deriv.com] are ranked as the most popular resources on the respective subjects.

Vinod Kothari is the **Executive Director** of the Asian Securitization Forum.

Fees:

- Members of the **Association of Leasing and Financial Services Cos. or Asian Securitization Forum** get to pay Rs. 12000/- per participant.
- Other Indian participants pay as per a graded scale as under:
 - ◆ Rs. 15000/- per participant for one registration from the same entity
 - ◆ Rs. 13000/- per participant for two registrations from the same entity
 - ◆ Rs. 12500/- per participant for three or more registrations from the same entity
- Foreign participants pay USD 400 per participant. To register and pay by credit card, write to vinod@vinodkothari.com or check up our website at <http://vinodkothari.com>

Fees along with the Registration Form should be sent payable to the **Association of Leasing and Financial Services Cos.** Cheques to be payable at Mumbai.

Unless kept wait-listed, all bookings are confirmed on realisation of fee.

Bookings can be cancelled by written intimation at least 3 days before the Course date, when a refund of fees after a 20% deduction on account of administrative charges shall be made. No refund is possible for cancellation thereafter or for no shows. Wait-listed participants not confirmed will be entitled to full refund.

Only registered delegates will be allowed to attend the Course.

Time and venue details

Venue:

**Hotel Taj Lands End
Bandra (near Band Stand)
Mumbai**

Time:

9.30 a.m. to 5.30 p.m. On the first day, participants are required to report at 9.00 a.m. for registration formalities.

Course materials:

- Complimentary copy of Vinod Kothari's **Credit Derivatives and Synthetic Securitisation**, priced at USD 75/ Rs. 1250/-
- Hard copies of the presentation materials will be provided along with the usual conference kit.

Number of Participants:

Limited to 50 on first-come-first-serve basis.

Course outline:

Credit derivatives : motivations and structures

- concept
- and development over time
- Motivations for the protection buyer and protection seller
- Impact on regulatory capital and the economics of credit derivatives
- Types: default swaps, total return swaps, credit linked notes

Credit derivatives and credit risk management

- credit risk : the greatest challenge of our times
- using credit derivatives to mitigate credit risks and portfolio risks.
- Credit derivatives for balance sheet management.
- Credit derivatives as arbitrage and investment products.
- Credit risk securitisation and credit derivatives.

Legal issues in credit derivatives

- nature of contract : swap, option or indemnity.
- Insurance angle
- Gaming or wagering angle.
- Enforceability of a credit derivative: case law.
- Trigger events in credit derivatives
- defining a trigger event. Disclosure of credit information
- Confidentiality issues.
- Standard ISDA documentation and various credit events:

- Introduction to the master documents, 2002 Definitions and the changes from 1999 Definitions
- The restructuring controversy.

Accounting issues in credit derivatives

- credit derivatives
- a guarantee product or insurance product?
- FAS 133 and IAS 39.
- Accounting for credit linked notes.
- Separation of embedded derivatives in credit linked notes
- illustrations.
- Application of fair value accounting.

Taxation of credit derivative transactions

Regulatory issues

- bank regulatory guidelines in some jurisdictions.
- BIS-II recommendations for credit derivatives.
- The residual risk factor and implications for the credit derivatives market.

Introduction to synthetic CDOs

- Synthetic securitisation: the coming together of credit derivatives and securitisation. CLOs and CBOs : cash structures and synthetic structures.
- Growth of synthetic CLOs for balance sheet and arbitrage purposes.

Synthetic vs Cash Securitisation

- Choosing between synthetic securitisation and cash securitisation: compliance and legal costs; regulatory effect and impact on economic capital.
- Economics of synthetic securitisation with reference to regulatory capital release.

Legal issues in synthetic securitisation

- absence of assignment and true sale.
- Legal structures for securitisation in different markets.
- Nature of a synthetic security in context of ruling in Caiola vs. Citibank.

Investing in synthetic CDOs: considerations.

- Investor concerns: collateral, collateral manager, transaction structure, and nature of credit enhancements.

Case studies

- From Australia, Asia and Europe: we will present a selection of case studies including recent deals, deals setting a precedent, and deals with complex structuring.

To register:

Send your check for the registration fees as applicable along with the following particulars relating to each attendee to **Association office** (address below). Registration is confirmed upon realisation of your check.

Attendee name:

Attendee designation:

Company name:

Attendee contact details: Phone

Fax:

E-mail:

Another contact person from the Company (say, HR or Admin)

For any more details, contact:

Mr. Mahesh Thakkar

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What are credit derivatives:

Like any other derivative, a credit derivative is instrument to transfer risk: in this case, the risk is credit risk. Through a derivative contract referenced to one or more reference obligations, a party, called *protection buyer*, for stated premium, buys protection against a definitive event or events from another party, called the *protection seller*. The events against which protection is bought or sold are called *credit events*. Credit events include such contingencies as bankruptcy, failure to pay, other defaults of the obligation, an event triggering acceleration of the obligation, repudiation of the obligation or restructuring of the obligation.

The manner in which protection is bought/sold is either by way of a physical swap of the reference asset whereby the protection seller buys the defaulted obligation against par payment, or by net settlement based on a valuation of the defaulted obligation. As the essence of the transaction is a swap of the defaulted asset with reference to which credit events have taken place, the contract is called *credit default swap*.

Yet another type of credit derivative is a *total rate of return swap* under which the protection buyer transfers periodically the actual returns from a reference obligation/s to the protection seller, and the later transfers in return a rate referenced to a base rate such as LIBOR. In essence, therefore, while protection seller has been able to synthetically create a position on the reference obligation, without any actual sale of the obligation. The protection buyer, on the other hand, is synthetically able to replace the actual obligation by an obligation referenced to LIBOR.

When these derivative contracts are embedded in a security such as a bond or note, issued to capital market investors, such that the investors become to protection sellers through a special purpose vehicle, we are making use of the securitisation device to transfer credit risks into capital markets. This is referred to as synthetic securitisation

You will learn...

- Application of credit derivatives and synthetic securitisation by banks, to make their regulatory balance sheets leaner, capital more efficient, and as a tool of risk management.
- Learn to provide thorough inputs on the techniques of credit derivatives and synthetic securitisation, product structures, legal, accounting and regulatory issues.

- Provide framework for regulatory treatment of credit derivatives from prudential viewpoint and updates on the prudential regulations of various regulators
- Learn to highlight (with the help of case studies) arbitraging opportunities by repackaging credit assets using securitisation and credit derivatives
- Learn to structure a credit derivative transaction