

CDOs have provided a new dimension to trading and tranching in synthetically created credit pools

Credit derivatives are the hottest and fastest growing derivative

An international training program, fully residential and most competitively priced

September 18-20  
ITC Sonar Bangla Hotel  
Kolkata (Calcutta)  
or similar



# Credit Derivatives and CDO masterclass

Concise, yet comprehensive, workshop on a business growing at over 100% per annum

- Credit derivatives, a phenomenon of last 10 years, have shot in popularity world over and have provided a completely new way of trading in credit risk, synthetically creating, tranching and playing with risk as a commodity.
- Alan Greenspan held credit derivatives and CDOs as responsible for holding the health of the banking system through several major bankruptcies in the recent past.
- Credit derivatives desks in large international banks are among the most coveted positions.
- Grab this course providing complete inputs over a short span of just 3 teaching days.
- By internationally acclaimed faculty, author of several books; trainer world-over.
- All our past courses have drawn participants from all over the world

Fully  
residential  
course at  
US\$ 1300

Organised by:  
**VINOD KOTHARI CONSULTANTS PVT LTD.**  
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Phone 91-33-22811276/22817715/22813742/23233863/ 23233864  
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### **Course fees per participant:**

	<b>Complete package</b>
<b>Overseas participants</b>	USD 1300
<b>Indian participants</b>	Rs. 50000/-

Overseas participants must pay by bank remittance. For bank account information, please do write to us.

### **Course fee includes:**

- 3-days' Tuition
- Residential accommodation in a 5-star hotel (Hotel Taj Bengal or similar) for maximum n+1 nights, where "n" stands for the number of days a participant is attending the workshop, one room per person.
- Breakfast and lunch for the complete duration (n+1 days)
- Course materials including comprehensive presentation materials

### **Sister events: The Securitisation School & The Credit Derivative School:**

With training on structured finance as our core competency, we have been holding Securitisation and Credit Derivatives training events in all the major financial centers of the World. One of our notable events is the Securitisation School: we have already successfully held three Securitisation Schools and intend to repeat the same over time. All the three Securitisation Schools have drawn international participation. Participants' feedback has been excellent - on a rating scale of 1 to 16 (sixteen being highest), more than 75% participants have consistently rated our events between 15 and 16. We held the First Credit Derivative School in 2005 that also received overwhelming response, please see <<http://www.vinodkothari.com/creditderivschooreport.htm>>

### **Venue:**

Calcutta (Kolkata) is a bustling city in the eastern part of India, with a rich colonial and cultural heritage. The city has several unique faces: the cultural capital of India; the place where Mother Teresa worked for the "poorest of the poor"; a city where every fifth person or so is a poet or litterateur, singer or fine artist; a city where architectural beauties of the British empire are preserved in elegance. The venue will be a 5-star hotel (Hotel Taj Bengal or similar) in the city. Calcutta is easily connected with international destinations: direct flights from Singapore, Bangkok, Dubai, Kuala Lumpur, Amman, and London etc. For any assistance with travel itinerary, excursions, extra nights, domestic or international bookings, etc., please contact our travel agent listed at <http://vinodkothari.com/secwork.htm>.

### **Why should you participate?**

If you have anything to do with credit derivatives and synthetic securitisation, and getting inputs on this very important financial instrument is on your wish list, you would find it extremely sensible to join this event.

As the coverage is very comprehensive, you will emerge with complete inputs on credit derivatives and synthetic CDOs. We will cover the whole range of relevant issues. We will handhold you in learning

complicated mathematical concepts on pricing. The workshop will provide inputs from structurers, sellers, buyers and investors' perspectives.

### **Most competitively priced event**

This event might stand out as one of the most competitively priced event financial topics in the market. If training costs matter to you, this course is the simplest buy out. After adding the cost of travel to the venue (please do allow our travel agent to suggest you convenient flight routes), the course will be cheaper than any other non-residential course of much smaller duration. Further, the course is unique since it covers both Credit Derivatives and Securitisation.

What allows us to price the event so cheap? As there is no intermediating event producer, we save a lot of money and transfer the savings to you. Besides, we have taken advantage of very tightly priced hotel package, again, to your advantage.

### **About your workshop leader:**



**Vinod Kothari** is internationally recognized as author, trainer and expert on specialized financial subjects viz., Securitisation, credit derivatives, accounting for financial instruments, etc.. As such, he lectures all over the world. The locations where he has lectured on these subjects include London, Singapore, Hong Kong, Sydney, Colombia (South America), South Africa, Malaysia, Jordan, Egypt, Sri Lanka, Bangla Desh, etc., besides almost every important location in India.

#### ***Author of Books:***

- **Lease Financing and Hire purchase** (5<sup>th</sup> edition, 2005 in print): This book, first published in 1985, is widely recognised as the bible on leasing in the continent and has been the most popular text on the subject for last 15 years. The book runs over 2000 pages and has elaborate contents on leasing, hire purchase and similar credit agreements.
- **Securitisation: The Financial Instrument of the New Millennium**, Second edition 2003: Running over approximately 900 pages, this is an internationally-read publication which quickly ran out of print and is now undergoing comprehensive revision for a new edition. The book is read in some 30 countries all over the World.
- **Credit Derivatives and Synthetic Securitisation**, 2002: This is one of the very few comprehensive texts on credit derivatives and is read all over the World.
- **Securitisation, Asset Reconstruction and Enforcement of Security Interests**, (2005 updated edition): This book is a detailed commentary on the law by the same name enacted in India. Besides a thorough and incisive commentary on the law, the book contains generic chapters dealing in detail with the law of enforcement of security interests in global context.

#### ***Articles:***

- Vinod Kothari's articles on asset-based finance, securitisation etc. have appeared in several national and international journals including Duke Journal of Comparative International Law (USA), US Banker (USA), Exportrader (Spain), Trade and Forfaiting Review (UK), Journal of International Banking Law and Regulation (UK), Equipment Finance Journal (USA), Monitor daily (USA), Analyst (India), etc.

- Vinod Kothari also contributes to Euromoney's yearbooks on leasing and Securitisation.

### ***Lecturing:***

- Regular speaker at professional institutes,
- Visiting faculty at Indian Institute of Management, Joka, Calcutta for several years. Currently, offering a course on structured finance, rated as one of the most popular courses (last term had 130 registrations).
- Guest faculty at National University for Juridical Sciences: the subject taught here were insolvency and enforcement of security interest laws in India and other countries. The course included a comparative study of the insolvency and creditors' rights in USA, UK and Australia.

### ***Websites***

Vinod Kothari owns and runs some of the World's most popular websites on specialized financial subjects:

- Securitisation: <http://vinodkothari.com>
- Credit derivatives: <http://credit-deriv.com>
- Leasing and asset-backed financing: <http://india-financing.com>
- Asset reconstruction companies: <http://india-financing.com/arc/>

### ***Positions***

Vinod Kothari is currently retained by the Asian Development Bank, Manila for two important projects: to advise the Govt. of India on reforming secured lending law in India; and to develop securitisation-related legal framework in the Asian region.

Vinod Kothari is the Director of Association of Leasing and Financial Services Cos., a body of over 500 top leasing companies in India and is editor of its Newsletter Fin-n-lease.

Vinod Kothari is the former Chairman of the Institute of Company Secretaries of India.

Vinod Kothari is the Executive Director of the Asian Securitisation Forum

### ***Awards***

In 1987, a voluntary organization of Calcutta chose him as the Outstanding Young Person of Calcutta in the field of Finance and Taxation. Vinod Kothari won several academic awards.

## **A typical training day's routine**

We will take full advantage of a residential course to provide participants quality-training inputs, supplemented by time-tested methods that enhance efficiency and energy. Be prepared to slog – in your own interest, we will try to give you our best, and take the best out of you. The typical day starts from 9: 30 AM and ends at 6:00PM with Lunch and Coffee Breaks at appropriate times. We give you an opportunity to ask as many questions you want to- there is no fixed time for “question answer sessions”. **Please be present at the venue at 9:00 AM on the first day for registration.**

## OUTLINE OF CONTENTS

### **Day 1: Overview of Credit Derivatives April 27<sup>th</sup>, 2006**

- 1. Concept of credit derivatives** – credit risk as a commodity. Synthetic credit asset – concept of creation and transfer of assets synthetically. Introduction to the market for credit derivatives and its stellar growth. Motivations in credit derivatives – hedging, arbitrage, and speculation.
- 2. Basic Instruments of credit derivatives** – credit default swaps, total rate of return swaps. Funded and unfunded swaps - Credit linked notes. Leveraged structures – portfolio default swaps and single name swaps. Basket swaps – creating nth to default position in a basket. Index trades. Equity default swaps and other innovations. Constant to maturity products.
- 3. Credit derivatives and Securitisation:** concept of synthetic Securitisation. Cash versus synthetic Securitisation – major differences. Motivations for synthetic Securitisation. Introduction to CDOs – balance sheet and arbitrage CDOs.
- 4. Basic terms of credit derivatives trades** – tenure, premium, etc. Reference and deliverable obligations – obligation characteristics. Credit events – understanding of credit events under ISDA definitions. Valuation. Settlement – understanding of the methods of settlement – physical and cash. Notification procedures. Basket trades. Index trades – introduction to standard indices and the trading procedures on indices. Credit derivatives on asset-backed securities.
- 5. Legal issues** - Legal nature of credit derivatives; distinction between guarantees and insurance. Applicability of regulation on derivatives. Legality of credit derivatives – case law. Litigation on credit derivatives – past experience.

- 6. ISDA documentation** – introduction to the overall scheme of ISDA master document. Confirmation and definitions. Main terms of the Definitions. ISDA standard documentation matrices.
- 7. Introduction to accounting for credit derivatives** – accounting standards for credit derivatives. US and International accounting standards. Embedded derivatives and investor accounting.
- 8. Basle II and capital consequences of credit derivatives** – regulatory capital consequences of credit derivatives. Treatment for the protection seller and protection buyer. Minimum conditions. Basle II implications of credit derivatives. Supervisory discretion for residual risks in credit derivatives. Capital implications in case of tranching risk transfers. Credit derivatives and economic capital. Implications for RAROC, etc.

### **Day 2: Synthetic CDOs: Structuring, and Modeling April 28<sup>th</sup>, 2006**

- 1. Concept of CDOs** – structured vehicles for investments with specific target. Balance sheet and arbitrage vehicles. Cash and synthetic vehicles. Static and dynamic pools. Managed and static pools. CDO activity in the world.
- 2. Architecture of synthetic CDOs:** CDO manager. CDO equity provider. Liquidity facilitator. Selection of the pool – selection objectives and parameters. Weighted average rating factor. Diversity and diversity score. Structural triggers – the over-collateralisation test and the interest cover test.
- 3. Structuring balance sheet CDO transactions:** Objectives – economic and regulatory capital relief. Risk management. Process of balance sheet synthetic CDOs. Cash versus balance sheet synthetic CDOs. Meeting the

- funding motive in balance sheet synthetic CDOs. **Relevant case studies.**
4. **Structuring arbitrage CDO transactions:** Arbitrating – the crux of CDO process. Selection of arbitrage pool. Objectives in selection – optimization of arbitrage. Correlation between the asset composition and liability structure. Creating diversification in the pool. The number of assets as a factor in credit enhancement levels. Structure of arbitrage transactions – stand-alone CDOs and CDOs routed through balance sheets of banks. **Cases of arbitrage CDOs.**
  5. **Structuring single tranche CDOs –** relevance as bespoke, quick-fix CDOs.. Structure of single tranche transaction as through the balance sheet of a bank. Delta of CDS deals. Delta-hedging the uncovered risks in single tranche transactions. Practical examples in delta hedging.
  6. **Structuring CDO squares and CDO cubes:** Creating double and triple layers of leverage in transactions - risk increased or risk reduced? Understanding correlation and common names' risk in CDO squares. Structuring of CDO squares. **Case study of a CDO square.**
  7. **Structured finance CDOs –** synthetic CDOs based on structured finance and real estate transactions. Typical features of structured finance CDOs. Credit Events. Other issues in structured finance CDOs. **Case study of a CDO deal.**
  8. **Modeling of synthetic CDOs –** cashflow and risk model of an arbitrage synthetic CDO. Workings on Excel. Stress testing of the model.
  9. **Rating agencies' approach to rating synthetic CDOs -** Moody's approach to synthetic CDOs. Concept and computation of diversity score. Binomial expansion method. Double and triple binomial method. Correlated binomial method. S&P's evaluator model – comparing the binomial and the simulation approaches. Fitch model.

## **Day 3: Pricing of Credit Risk, Pricing and Valuation of Credit Derivatives**

### **April 29<sup>th</sup>, 2006**

1. **Credit Risk –** meaning and indicators. Stand alone risk and portfolio risk. Credit risk mitigation. Credit risk transfer.
2. **Probability of default and loss given default –** probability of default as indicator of credit risk. Meaning of default. The amount at risk or exposure at default. Recovery rate and loss given default as measures of loss amount. Credit spread – reasons for existence of the credit spread. Market's estimate of losses implied by credit spread. Term structure of credit risk and deriving future probabilities of default.
3. **Introduction to Merton Model and other structural models –** foundations of the Merton model in Black Scholes option pricing model. Derivation of Merton formula – assessing probability of default. Time or distance to default. Applications of the structural models in practice.
4. **Introduction to Intensity models and reduced form models-** conceptual foundations of the intensity models. Main intensity models – Jarrow Lando Turnbull approach; Duffie and Singleton approach. Other approaches. Practical application of the intensity approach.
5. **Practical approach to pricing of credit derivatives –** pricing credit default swaps in practice. Difference between funded and unfunded swap. Examples and exercises on pricing of single name credit default swaps
6. **Correlation –** assessment of correlation risk -guide to estimating correlation. Credit correlation and asset correlation. Simulated correlated assets' defaults. Applying correlation to random numbers.
7. **Pricing of n-th to default basket swaps.** Pricing of the first-to-default basket swap – correlation and the impact on the risk of the FTD protection seller. Impact of correlation on the risk of the STD and

TTD basket seller. Exercises in assessing prices of basket swaps. Guide to constructing baskets.

8. **Pricing of CDOs** – difference between CDO risks and basket swap risks. Assessing portfolio risks. Tranche risks.

Factors affecting the tranche risks. Subordination. Thickness of the tranche. Granularity of the pool. Practical exercises in pricing of CDO tranches. Illustration of simulation approaches.

### Contacts

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**REGISTRATION FORM**

**Credit Derivatives and CDO Masterclass -  
2006**

**KOLKATA  
18-20 Sept, 2006**

1.Name\_\_\_\_\_

Designation\_\_\_\_\_

Qualification\_\_\_\_\_Signature\_\_\_\_\_

2.Name\_\_\_\_\_

Designation\_\_\_\_\_

Qualification\_\_\_\_\_Signature\_\_\_\_\_

Name of the Organisation\_\_\_\_\_

Address:\_\_\_\_\_

City:\_\_\_\_\_Pin Code:\_\_\_\_\_

Telephone:\_\_\_\_\_

E-mail\_\_\_\_\_Fax\_\_\_\_\_

Enclosed (Check one):

(Cheque)

(Demand Draft)

(Cash)

For fees details check the enclosed brochure.

**Payment may be made by Cheque/remittance favouring VINOD KOTHARI CONSULTANTS PVT LTD. Foreign participants may make direct remittance using their credit card. Please contact us for credit card payment instructions.**

Cancellation made upto 5 days before the event will be entitled to refund of 75% of the fee paid. No refund will be made for cancellations thereafter or no shows.

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