

COURSE OUTLINE:

Managing Credit Risk in a Fixed-Income Portfolio

2 days
16 CPE Credits

Overview

This two day programme covers the management of credit risk in a fixed income portfolio. The programme takes participants through the analysis of risk on a standalone and portfolio basis. Emphasis is placed on the calculation / identification of standard risk inputs such as default probability and loss given default and the application of these metrics in a Value at Risk style risk model. The programme also deals with the management of the counterparty credit risk that is created by the hedging products that may be present in fixed income portfolios. The programme ends with a discussion around the management of the portfolio risks using derivatives.

Learning Objectives

By the end of the course participants will be able to:

- » Understand the analysis of standalone credit risk using standard credit metrics and also in a Value at Risk framework
- » Contrast and compare the alternative sources of standard metrics from historical or market implied data
- » Discuss the benefits and risks of modelling default and recovery risks
- » Understand the importance of correlation in risk analysis
- » Judge exposure metrics and identify risks
- » Analyse standalone and marginal risks and make corrective decisions
- » Describe and evaluate the credit risks coming from hedging derivatives
- » Understand the process of managing portfolio risk using the CDS market

Who Should Attend

This course is useful for:

- » Portfolio/asset/fund managers
- » Credit/lending officers
- » Investment and commercial bankers
- » Fixed income professionals
- » Risk managers
- » Banking supervisors

Program Level

Program Level: Introductory

Prerequisites: Suggested one-two years experience in a capital markets/structured finance related function or relevant business related degree.

Advanced Preparation: None

Delivery Method: Group-Live

Accreditation

Moody's Analytics is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbregistry.org.

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Our training solutions leverage over a century of experience in risk assessment and the comprehensive tools, data, and analysis of Moody's Analytics to deliver timely, in-depth, and comprehensive knowledge. In delivery, our people make the difference – they combine deep experiences as financial practitioners, intellectual passion for the content, and superior academic credentials with a commitment to delivering outstanding quality.

Managing Credit Risk in a Fixed-Income Portfolio – Agenda

DAY ONE

Session 1: Standalone credit risk

- » Rating migration
- » Default probability
- » Loss given default
- » Valuing a bond under different credit qualities
- » Statistical description of risk: mean and standard deviation
- » Modelling uncertainty in default probability and recovery metrics
- » **Case study:** on the Value at Risk of a single bond

Session 2: Modelling credit risk

- » Merton's model: option theoretic approaches to valuation
- » Ratings: long term vs. market implied measures
- » Ratings and value distributions
- » **Case study:** on estimating default probability and recovery rates

Session 3: Portfolio risk

- » Joint migration probabilities
- » Correlation: credit quality co-movements
- » Finding default correlations
- » Creating joint migration probabilities given correlation
- » Distribution of portfolio risk and descriptive statistics: mean and standard deviation
- » **Case study:** on the Value at Risk of a fixed-income portfolio

DAY TWO

Session 4: Analysis & applications

- » Understanding absolute exposure size
- » Identification of highest statistical risk levels
- » Setting limits for portfolio management
- » Marginal vs. standalone risk measures

- » Choice of statistical measures: standard deviation, percentiles, average shortfall, expected excession of a percentile level
- » Risks not in VaR
- » **Case study:** on the analysis of portfolio exposure

Session 5: Counterparty credit exposure

- » Modelling how asset prices move
- » Methods of computing credit exposure
- » Modelling credit exposure over time
- » Typical exposures on standard OTC derivatives
- » The impact of netting on exposure calculations
- » Standalone vs. marginal considerations
- » **Case study:** on the management of counterparty credit risk

Session 6: Managing credit risk using credit derivatives

- » CDS: fees and deal spreads
- » Upfront payments and quarterly cash flows
- » Through the life: credit event or not?
- » Cash settling a CDS using auctions
- » Default or fair value hedging?
- » Using single name or index CDS to hedge?
- » VaR on a foreign currency bond
- » **Case study:** on the management of credit risk using the CDS market

RELATED COURSES

- » Structured Finance
- » Introduction to Derivatives
- » Introduction to Credit Derivatives
- » Managing Market Risk in a Fixed-Income Portfolio
- » Inflation Products
- » Counterparty Credit Risk

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Fees & Cancellations

The fee listed is per participant and includes refreshments, lunches and seminar materials. Seminar fees do not include tax, transportation or hotel accommodations. Payment must be received in full prior to the start of the seminar. Registrations may be cancelled in writing via letter or email at least 30 days before the first date of the training for a full refund. Cancellations received less than 30 days in advance are eligible for substitution with another seminar, but fees will not be refunded. We reserve the right to cancel or reschedule seminars at any time. For further information on our refund and complaint policy, please contact us.

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