AsiaRisk

Measuring and Mitigating Counterparty Risk Management

Sydney

1st & 2nd September 2010

Course highlights

- Risk appetite for counterparties
- Stress testing the central counterparty model: the Lehman default
- Effective measures to deal with wrong way risk
- Collateral management beyond banks

Dr Jon Gregory
Founder,
OFT TRAINING

Andrew White
General Manager,
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Head of Risk Management,
JP Morgan

George Efstathakis
Partner, Promontory Financial

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About the course

The ongoing financial crisis has highlighted the need for more robust counterparty credit risk management procedures. Financial intuitions across the board should be committing resources to improve internal process and systems in this area

The ever changing landscape of counterparty credit risk means that up-to date information is essential for good business practice and this two day course aims to do that, with sessions covering pricing, modelling exposure, the management of wrong way risk and the development of central counterparties. We will also look at collateral management the paramount weapon for counterparty risk reduction. Leading international and local experts will address all the of the topics above.

"Since the collapse of Lehman Brothers in September 2008, counterparty credit risk management has assumed critical importance at both sell-side and buy-side institutions" David Kelly, Quantifi Solutions in Credit Magazine, 1 April 2010

Learning outcomes

- Discover why you need to measure your counterparty and what methodologies are available
- Learn how to understand your counterparties' risks
- Hear about the lessons learnt from Lehman
- Understand the use of collateral and the issue with trading in different jurisdictions
- Discover the role of central counterparty clearing for OTC derivatives
- Develop effective measures to deal with wrong way risk

Who should attend?

This course is relevant to Chief financial officers and executives working in capital management, credit risk, liquidity risk, market risk and operational risk. It is particularly useful to managers/heads/officers of:

- Counterparty credit risk
- Derivatives trading
- Credit risk
- Credit portfolio strategy
- Counterparty risk exposure
- Market risk
- Risk management
- Quantitative management
- Collateral management
- FX options

Certificates of attendance are available for all our training courses

"Incisive Media is organising well-attended courses gathering practitioners and academics to address practical issues of relevance to Asian banks. There is as much value in the Experts' presentations as in the lively debate that usually follows."

- Corinne Neale, Managing Director, Algorithmics

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Course tutors

DR JON GREGORY, FOUNDER, OFT TRAINING

Dr Jon Gregory is a consultant specialising in counterparty risk and credit derivatives. Until 2008, he was Global Head of Credit Analytics at Barclays Capital based in London. Jon has worked on many aspects of credit modelling over the last decade, being previously with BNP Paribas and Salomon Brothers (now Citigroup). In addition to publishing papers on the pricing of credit risk and related topics, he was in 2001 co-author of the book "Credit: The Complete Guide to Pricing, Hedging and Risk Management", short-listed for the Kulp-Wright Book Award for the most significant text in the field of risk management and insurance. He is author of the book "Counterparty risk : the next challenge for the global financial markets" published by Wiley Finance in December 2009.

Jon has a PhD from Cambridge University.

DARREN MEASURES, J.P.MORGAN,

Darren Measures is an Executive Director, Head of Risk for Asia Pacific region of JPMorgan Worldwide Security Services, based out of Hong Kong, a position he recently transitioned into. Prior to that he was Head of Clearance & Collateral Management Client Sales & Management in New York, a position he held since November 2007. From 2004 through 2007, Darren was the global product manager responsible for the launch of the Derivatives Collateral Management product and US Equity TriParty Repo. He had moved to the US from London in 2000 in order to run the Western Hemisphere operation after working on the Investment Bank's OTC derivatives collateral management program.

Darren joined JPMorgan in 1999 with significant experience in sales, credit and market risk management garnered during tenures at Citibank, SBC and UBS. These experiences developed his knowledge of OTC libor, government, equity and credit derivative products.

He is a working member of the International Swaps and Dealers Association's Collateral Committee.

ANDREW WHITE, GENERAL MANAGER, RISK OPERATIONS, ASX

Andrew is the General Manager of the Risk Operations team at ASX, the Australian Securities Exchange. The team is responsible for the day-to-day risk management of the market and credit risk associated with the Group's cleared products and its treasury investment.

Prior to starting at ASX in 2007, Andrew spent nine years at LCH.Clearnet in London, six of which were as Director of Risk Policy. In that role he managed teams responsible for day-to-day risk management, quantitative analysis and counterparty risk. His remit also included wider policy aspects, including the Board's risk appetite statement, liaison with the Risk Committee, communication with customers and operational risk.

Andrew began his career by spending almost five years at the Bank of England where he worked in the international, financial stability and supervision areas.

Andrew is a graduate of Oxford University where he read P.P.E.

He has been a speaker and panellist at industry events for a number of years on a range of topics, both in terms of market infrastructure (the development of the derivatives market, banking supervision, the role of clearing houses) and risk management (of fixed income products, operational risk, stress testing, counterparty risk, liquidity risk, enterprise wide risk management and strategic risk).

GEORGE EFSTATHAKIS PARTNER, PROMONTORY FINANCIAL

Mr. Efstathakis advises large financial services clients on regulatory capital requirements, particularly in relation to market risk and operational risk, and compliance frameworks. Mr. Efstathakis joined Promontory from Ernst and Young's regulatory practice. Prior to joining Ernst & Young, Mr. Efstathakis spent eight years with APRA where he held a variety of senior positions, including head of the quantitative operational risk team. This team assessed models implemented by ADIs under the Basel II Framework. He also held senior roles in APRA's onsite review and analysis area, focusing on market risk and trading risk models.

Day 1 Wednesday 1st September 2010

0900 Registration and coffee

0930 **KNOWING YOUR COUNTERPARTY RISK**

- Operational due diligence
- Risk appetite for counterparties
  - Counterparties to avoid and why?
- Understanding revenue generation
- Estimating default probability
- How do banks internal ratings work effect counterparty risk?
  - IRB-A framework
  - IRB-F framework
- Using external rating systems
- Rating in the current market

1100 Morning break

1130 **HOW PROPOSED GLOBAL REGULATORY CHANGES WILL IMPACT COUNTERPARTY RISK**

- Regulations: help or hindrance?
- Regulatory treatment of counterparty credit risk
- Global proposed changes and industry responses
- Credit Valuation Adjustment - CVA - Risk
- OTC derivatives
- Central Counterparties and trade repositories
- Industry challenges

1300 Lunch

1330 **COLLATERAL AND OTHER METHODS OF MITIGATING COUNTERPARTY RISK**

- Nature of collateral
- What collateral is acceptable
- Segregation of assets
- Custody of assets
- Trading in different jurisdictions
- Forward looking valuations and valuation disputes
- Collateral management beyond banks

1530 Afternoon break

1530 **MEASURING COUNTERPARTY RISK THROUGH MODELING CREDIT EXPOSURE**

- Uncertainty of future credit exposure
- Monte Carlo simulation of potential future exposure
- Accounting for netting agreements
- Accounting for margin agreements
- Accounting for early termination agreements

1700 End of day one

Day 2 Thursday 2nd September 2010

0830 Registration and coffee

0900 **PRICING COUNTERPARTY RISK THROUGH CVA**
- Credit Value Adjustment (CVA) and the price of counterparty risk
- Contract level vs. counterparty level
- CVA and risk neutral expected exposure
- Simulating risk neutral exposure
- Pricing new trades with a counterparty

1030 Morning break

1100 **MANAGING WRONG WAY RISK**
- General and specific wrong way risk
- Wrong way exposure
- Modelling wrong way risk
- Effective measures to deal with wrong way risk

1230 Lunch

1400 **MANAGING CVA IN A BANK/ HEDGING COUNTERPARTY RISK**
- Hedging jump to default risk with CDS
- Hedging CVA against changes in the market factors
- Static hedging using contingent CDS
- Risk return under a hedge framework

1530 Afternoon break

1600 **DEVELOPMENT OF CENTRAL COUNTERPARTIES**
- What are central counterparties?
- How do they interact with exchanges?
- How do they mitigate counterparty credit risk?
- Stress testing the central counterparty model: the Lehman default
- Pig on pork: central counterparty clearing of credit default swaps

1700 End of course

Upcoming events in Asia-Pacific in 2010

Risk Australia
Sydney, 31 August

Malaysia Investment Summit
Kuala Lumpur, 14 September

OpRisk Asia
Singapore, 15 & 16 September

Structured Products Asia
Hong Kong, 20 September

Energy Risk Asia
Singapore, 29 & 30 September

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Registration & payment details

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