

## **SYLLABUS**

### **CREDIT RISK, INSTRUMENTS AND CREDIT TRADING STRATEGIES**

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**WEBSITE for the course: [www.neftci.com/credit](http://www.neftci.com/credit)**

**Exams: One exam, TWO quizzes.**

#### **Outline of Topics**

##### **A. Introduction**

- The credit crisis of 2007
- The instruments, risks
- CDO's, tranches
- SIV's and Conduits
- The role of correlation

##### **B. The basic building block**

Credit Default Swap Technology

- Single name Credit Default Swaps (CDS)
  - a. Why CDSs are natural default products?
  - b. Financial engineering of a Defaultable bond
- Pricing of a CDS
  - a. Different approaches to pricing
  - b. Reduced form models

c. Structural models

- Repeat: Why default correlation, interest rates and counterparty correlation does not matter much?

### **C. Structured finance**

Asset Backed Securities Reviewed Briefly

1. What is an ABS?
2. The Mechanics of structuring ABSs
3. Types of ABSs

### **D. Correlation Products**

- Basic CDO structures
  - What is a CDO?
  - The notion of Tranche and Subordination.
  - The Interest and Collateral waterfalls: I/C, O/C tests
  - The legal and regulatory background.
  - The role of SPVs
  - Correlation is the key pricing variable.
  - Role of underlying economic conditions and correlation
  - How important are unknown recovery rates?

### **E. Modern Approach: Credit index Trading, Hedging**

Credit Indices, standard Tranches and their trading

1. iTraxx and CDX indices
2. Standard Tranches
3. Hedging an Equity tranche
4. Market strategies

5. Pricing Standard Tranches
6. Extracting implied correlation
7. Relationship between Basel II and index trading
10. Current methods in credit risk management

#### **F. Market Strategies using iTraxx and CDX and Trading Examples**

- Negative Basis Trades
- Curve flattening-Steepening Trades
- Long and Short Correlation Trades
- Options on Indices
- Forward curves

#### **G. New Credit Structures**

1. Leveraged Super Senior Notes
2. CPPI Products
3. What is a CPDO?