Interest Rates after the Credit Crunch: Markets and Models Evolution
by Marco Bianchetti and Massimo Morini

Milan, Italy: 25th & 26th October 2010

This workshop provides TWO booking options

Register to ANY ONE day of the workshop

Register to BOTH days of the workshop and receive €200 discount
Day 1: Interest Rates and Term Structure Building after the Credit Crunch

Presenters:
Massimo Morini: Head of Credit Models, Banca IMI

Pre-crisis Interest Rate Market and Models

- Libor as a risk free rate.
- The classic fundamental products: Deposits, FRAs & Futures, Swaps & Basis Swaps.
- Pricing interest rate products in the classic risk-free model (no default and liquidity costs).
- Pre-crisis yield curve and volatility cube bootstrappings.

Post-crisis Interest Rate Market

- Collateral agreements and collateralized derivatives under CSA.
- How the market changed: the explosion of basis spreads and the loss of the spot-forward relation.

Post-crisis Interest Rate Term Structure Building

- Including the cost of funding in discounting: construction of an OIS discounting yield curve.
- Including basis spreads in forwarding: construction of multiple forwarding yield curves.
- Multi-curve pricing is analogous to multi-currency pricing in a FX context. Convexity adjustment and quanto adjustment.
- Multi-curve SABR and volatility cube construction

Multiple Curve & Volatility Lab

- Practical implementation of the multiple yield curve and volatility cube bootstrappings after the crisis.

Day schedule:  09:00 – 17:30
Break:    10:30 – 10:45
Lunch:   12:30 – 13:30
Break:   15:15 – 15:30
Day 2: Interest Rate Modelling after the Credit Crunch

A Structural Explanation of the Post-crisis Market and the Basis Spreads

• Cost of Funding: disentangling CVA, DVA and LVA (Credit, Debt and Liquidity Value Adjustments).
• An interest rate market with default risk. Convexity adjustments and FX analogy in terms of credit volatility.
• An interest rate market with volatile credit risk. A structural model explaining the new market patterns with the credit and liquidity risk option hidden in Libor.

Updating the Interest Rate Models to the Multicurve Market

• Extending simple short-rate models: a shift in Hull & White to deal with multicurve interest rate market.
• Extending the BGM Libor Market Model and SABR. The M-BGM Model for Swap and OIS rates and the extension to Basis Spreads.
• The pricing of volatility and correlation interest rate derivatives: Constant Maturity Swaps, CMS Caps/Floors, CMS Spread Options, exotics.

Hedging and Risk Management

• Risk Management of multiple sources of interest rate, credit and liquidity risk.
• Multi-hedging in a multi-curve environment. The discounting and forwarding deltas and the cross-gamma. The sensitivity to correlation.
• Moving a financial institution towards multi-curve pricing and OIS discounting.
• Open issues and discussion.

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Break: 15:15 – 15:30
Workshop Fee:

☐ Any One day: €1099 + IT VAT

☐ Both days: €1998 + IT VAT
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