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

London: 17th & 18th March 2011

This workshop provides TWO booking options

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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

• How the market changed: the gap between Libor, Repo and Overnight rates. Libor as a risky rate.
  Overnight Indexed Swaps and Repo markets.
• 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
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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Workshop Fee:

☐ Any One day: £1099 + UK VAT

☐ Both days: £1998 + UK VAT (Including £200 Discount)

☐ Early Bird Discount: 10% Before 31st December 2010

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