

# Derivatives & Corporate Credit

A one-day intensive credit workshop for those responsible for understanding, assessing and monitoring corporate counterparty risk. The workshop provides the skills and knowledge required to evaluate how the use of derivatives impacts the credit standing of a company.

## TARGET AUDIENCE

Experienced credit and risk managers, relationship managers, fixed income investors or others responsible for assessing corporate counterparty risk.

## COURSE OBJECTIVES

The aim of this one-day course is to enable attendees to understand how the use of derivatives impacts the credit standing of a company. The course will enable participants to identify risk exposures, assess the credit impact of the derivative strategy employed to manage these risks, and evaluate the associated accounting and financial statement disclosure. Specifically participants will be equipped to:

- Identify the operating and financial risks to which a company is exposed and how derivatives are used manage them
- Distinguish between hedging and trading strategies
- Understand how derivatives are accounted for under IFRS and US GAAP
- Assess how derivatives use is reflected in the financial statements and their impact on current and future operating performance and financial risk
- Recognise the warning signals of high risk in the use of derivatives.

## CONTENT

### WHY AND HOW CORPORATES HEDGE USING DERIVATIVES

The goal of this brief introductory section is to identify the risks to which companies are exposed in order to understand the rationale underpinning the hedge strategy and evaluate the associated benefits of and risks inherent in such strategy.

- Understanding the risks faced by Corporates:
  - Risks to operating, funding, capital structure and investment flows and assets
- Uses of derivatives: hedging, trading, dynamic hedging
- Unravelling more complex hedging strategies
- Basic hedging tools: forwards, swaps and options
- Hedging: benefits and risks
  - Recent 'Derivative Disasters' involving Corporates
  - Impact of the Credit Crunch and new legislation
- Exercise: risks and how they are hedged.

### DERIVATIVE ACCOUNTING AND FINANCIAL STATEMENT IMPACT

The goal of this section is to understand how derivatives are accounted for under IFRS to evaluate the resulting impact on financial statements including the extent and usefulness of the disclosure.

- Background to IAS 39
- Basics of accounting for derivative products: fair valuation
- Where derivatives are reflected on the balance sheet
- Hedge accounting overview:
  - fair value, cash-flow, and foreign currency hedges of overseas operations
- Hard cases: firm commitments, ineffective hedges, embedded derivatives
- Key disclosure requirements: what information is useful in identifying future risk?
- Impact of different accounting standards in IFRS and US GAAP: IFRS39 and SFAS133
- Exercise: accounting for derivatives.

### ASSESSING THE IMPACT ON CREDITWORTHINESS

The goal of this section is to use a structured approach to assess the impact of a company's derivative hedging strategy on its overall creditworthiness and to identify any warning signs of potential problems associated with its risk management strategy.

- Structured framework for risk assessment:
  - Identifying the risks faced by the business
  - Defining expectations of hedging use
- Evaluating the extent to which hedging has impacted operating performance and financial risk
- Identifying warning signals: unhedged exposures, excessive risk taking, lack of transparency etc.
- Establishing appropriate monitoring tools
- Example used to illustrate analytic process
- *Case study*: analysing the use of derivatives by a Corporate.

### Learning Paths

