

Risk Management Solutions for Corporate Clients

A two-day workshop for relationship managers. The aim of the training is to heighten the participants' ability to identify and quantify the risk management needs of clients and to propose possible solutions.

TARGET AUDIENCE

This workshop is designed for individuals in client-facing roles that involve the identification and marketing of derivatives. It is expected that participants will have a basic knowledge of derivative products, although the course will refresh this knowledge.

For those interested in quantifying the credit exposure for derivatives, please see our Counterparty Credit Risk in Derivatives course.

COURSE OBJECTIVES

The aim of this two-day workshop is to:

- Enhance the ability of relationship managers to identify risk management opportunities for their clients
- Provide participants with sufficient knowledge and skills to enable them to confidently discuss risk management issues and product solutions with their clients
- Understand the accounting, cash flow and credit implications of different risk management solutions.

CONTENT

ANALYTIC APPROACH

The goal of this section is to provide a structured approach to identifying client risk management needs; accounting and credit risk implications will also be addressed.

Structured Approach

- Using the business cycle and financial statements to uncover operational and financial risk management needs:
 - Business risks: operating and investment flows
 - Financial risks: funding flows.
- Types of risk:
 - Interest rates, foreign exchange, equity, credit, inflation, commodity and property
 - Where do they arise in the financial statements?
- Criteria that drive decision making:
 - Perceived magnitude and probability of the risk: risk appetite
 - Identifying "natural" offsets in the business: economic and transactional
 - Potential product solutions: cost and management systems needed to support their choice
 - Credit impact of hedging versus open exposures.

Accounting

- Basic mechanics of accounting for derivatives
- Hedge accounting:
 - Fair value hedge
 - Cash-flow hedge
 - Net investment hedge

Credit Risk

- Major credit risk categories in derivative transaction:
 - Pre-settlement risk
 - Settlement risk
 - Premium payment risk
 - Payment timing mismatch risk
 - Lending risk

RISK MANAGEMENT SOLUTIONS I: MATCHING PRODUCTS TO CLIENT NEEDS

The goal of this section is to ensure that participants understand the key differentiating features of the main product types and how to structure product solutions to meet client needs. This section will be taught using a series of short exercises and examples built around "client scenarios" which the participants will be asked to work on individually and/or in small groups.

Interest Rate Risk

- Identifying and quantifying risk management needs for debt funding, liquid assets and economic exposures
- Sample client scenario: a company with both economic and transaction exposure to rising interest rates
- Product solutions: structure and pricing differences between forward rate agreements (FRAs), interest rate swaps, interest rate options (caps and floors), and interest rate swaptions.

Currency Risk

- Identifying and quantifying risk management needs for sales, costs of sales, overseas subsidiaries and affiliates
- Sample client scenario: a company with raw material costs priced in a different currency facing competitors in its export markets who have no currency risks
- Product solutions: structure and pricing differences between: FX forwards, cross currency swaps, and FX options.

Equity Risk

- Identifying and quantifying risk management needs for investments, affiliates and potential acquisitions
- Sample client scenario: a company with a minority stake in an overseas-listed affiliate and / or a company with a defined pension benefit pension scheme
- Product solutions: structure and pricing differences between equity forwards, swaps and options.

Other Risk Management Products: Commodity, Property, Inflation and Credit

- Identifying and quantifying risk management needs for these risks
- Sample client scenario: an airline with high fuel costs
- Product solutions: forwards, swaps and options.

RISK MANAGEMENT SOLUTIONS II: CASE APPLICATION

The goal of this case study is to apply the structured process to a real client risk management need.

- Identifying the key exposures, the risk management techniques that have been used to date and the perceived magnitude and probability of the risks
- Which financial products could be used, taking into account cost, flexibility, cash-flow profile, accounting etc?
- Conclusion: given your knowledge of the client criteria, which is the most appropriate solution, and why?

