



Intensive Programme on Financial Derivatives

in Collaboration with

CME Group, Chicago, USA

Module I

May 4 – 9, 2008 at NIBM, Pune

Module II

May 11 – 16, 2008 at CME Group, Chicago

Coordinators

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**National Institute of Bank Management
Pune, INDIA**

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Introduction

The progressive integration of the Indian financial markets due to globalization has made our banks, financial institutions and others more vulnerable to market risk. Increased cross-border flow of funds has further complicated the scenario. These in turn have made issues relating to hedging of such risk exposures very challenging. While derivatives are very useful for hedging and risk transfer, and hence improve market efficiency, it is necessary to keep in view the risks of excessive leverage, lack of transparency particularly in complex products, difficulties in valuation, tail risk exposures, counterparty exposure and hidden systemic risk.

The derivative markets in India have been going through a reform process over the last one and half decade and have witnessed significant growth in terms of size, product profile, nature of participants and the development of market infrastructure across all segments – equity markets, debt markets and forex markets. At present, Indian market is having a menu of over-the-counter (OTC) products, such as forwards, swaps and options, available to them for hedging their interest rate as well as currency risk and the markets for these are quite deep and liquid. Interest rate derivatives such as Interest Rate Swaps (IRS), and Forward Rate Agreements (FRA) were introduced in 2000. As regards interest rate derivatives, the inter-bank Rupee swap market turnover, as reported on the CCIL platform, has averaged around USD 4 billion (Rs. 16,000 crore) per day in notional terms. The outstanding Rupee swap contracts in banks' balance sheet, as on August 31, 2007, amounted to nearly USD 1600 billion (Rs. 64,00,000 crore) in notional terms. Outstanding notional amounts in respect of cross currency interest rate swaps in the books of Indian banks as on August 31, 2007, amounted to USD 57 billion (Rs. 2,28,000 crore). Trading in equity derivatives such as stock options, stock index options, etc. was introduced in June 2000. At present, size of equity linked derivatives is significantly higher as compared to cash segment. Indian forex derivative markets have also developed significantly over the years. As per the BIS global survey, the percentage share of the rupee in total turnover covering all currencies increased from 0.3 per cent in 2004 to 0.7 per cent in 2007. As per geographical distribution of foreign exchange market turnover, the share of Indian market at \$34 billion per day increased from 0.4 in 2004 to 0.9 per cent in 2007. The activity in the forex derivative markets can also be assessed from the positions outstanding in the books of the banking system. As of August end 2007, total forex contracts outstanding in the banks' balance sheet amounted to USD 1100 billion (Rs. 44,00,000 crore), of which almost 84 per cent were forwards and rest options.

In the context of growing integration of the Indian economy with the rest of the world, Reserve Bank of India has proposed to introduce new products like Interest Rate and Currency Futures. The Government of India and regulators of various markets such as RBI, SEBI and FMC have recognized the importance of financial derivatives and accordingly have taken various policy initiatives, so as to ensure that the derivatives market becomes a key segment of Indian financial market.

While one should understand the important features of these derivative instruments but at the same time demystifying the instruments, complex trading of such instruments, their risk structures and use for risk mitigation is a new concept especially in the Indian market. In view of the relevance of these products in the risk management exercise, the participants in the market like commercial banks, primary dealers, non-bank finance companies, mutual funds and corporations are likely to make use of these on a large scale for their own business. Given the above perspective, it is felt that the Institute should take appropriate initiative to impart new skills, knowledge, perspective and quality of analysis to the executives of banks and financial institutions who would participate in the derivatives market. The techniques we explore are essential for anybody needing to develop and actually use models in the financial markets such that model risk can be minimized and right trading strategy can be adopted.

To accomplish these objectives, the Institute has entered into collaboration with CME Group, USA to offer a series of programmes on financial derivatives to the banking and finance industry. The captioned programme is the first in this new Programme series of NIBM.

Distinctive Features of the Programme

The captioned programme is designed to sharpen the skills, knowledge, perspective and analytical capabilities of the executives in banking and non-banking financial institutions who are either presently working or are going to be posted in the Treasury, Forex, ALM and Risk Management departments including derivatives desks.

The programme will provide indepth input on theory and applications of derivatives by eminent faculty and leading practitioners both from the CME Group and in India.

Important cases in the global as also in local context would be deliberated during the programme.

About CME Group

The CME Group is the world's largest derivatives exchange and the first financial exchange to introduce currency futures. CME Group is a combined entity formed by the 2007 merger of the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT). It provides the widest range of benchmark futures and options products available on any exchange, covering all major asset classes. CME Group offers customers and the global marketplace a history of more than 150 years of exchange expertise.

Target Group

Executives working in the Treasury, Forex, ALM and Risk Management in Banks, Financial Institutions, NBFCs, Insurance Companies, etc.

Fee per Participant at NIBM, Pune

US \$ 3000 for Foreign Participant

Rs. 60000 for member or Rs. 75000 for non-member Indian institutions*

The fees cover the cost of programme material, full boarding and lodging at NIBM only. The fees to be remitted by demand draft/pay order made out in favour of 'National Institute of Bank Management', drawn on any bank and payable at Pune. (**Service tax will be charged, if applicable*).

TDS Exemption : Kindly note that NIBM is exempted under Section 194 J of the Income Tax Act, 1961, and hence no tax is deductible at source from any payments made in its favour.

Venue

Module I : May 4 – 9, 2008

National Institute of Bank Management
NIBM Campus, Kondhwe Khurd, Pune 411048

Accommodation : Programme is fully residential. Participants will be provided fully furnished single room AC accommodation in the recently renovated hostel complex in the Campus. Participants have to reach the Campus on 3rd evening and leave by the 10th morning. Participants will not be permitted to bring their family members to stay on the Campus.

Module II : May 12 – 16, 2008

CME Group
20 South Wacker
Chicago, Illinois 60606, USA

Accommodation : CME Group has agreed to make arrangements for stay in Downtown Chicago Hotel, at walking distance from CME Group Building, at the rate of US \$ 214 per night per participant for 6 nights.

Each participant is, therefore, required to carry a **Demand Draft of US \$1284 favouring “CME Group” payable in Chicago.**

Fee at CME Group : Nil

CME Group is hosting the Programme, including the lunch on all the Programme days.

Special Instructions

1. Participants should have valid passport covering the programme duration.
2. The responsibility of obtaining the visa lies with the individual participant. Participants are advised to initiate the process of obtaining visa for the relevant period of the programme from the US embassy at the earliest. To expedite this process participation letter from CME Group can be made available on request.

Nominations and Enquiries

Please address your enquiries and nominations alongwith the fees to :

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Website : <http://www.nibmindia.org>

Last Date for Receiving Nominations

March 24, 2008

Programme Contents

This programme is divided into two modules. First module will be conducted at NIBM, Pune Campus and the Second module will be held at CME Group, Chicago, USA.

Module I : May 4 – 9, 2008 (at NIBM, Pune)

Day 1 (4/5/08)

- Basel-II and Risk Management (Market, Credit, Liquidity, Operational Risk)
- Introduction to Derivatives
- Basic Statistics
- Distribution, Volatility, Correlation

Day 2 (5/5/08)

- Basic Bond Mathematics (YTM, Spot Rates, Duration and Convexity)
- Interest Rate Derivatives : IRS, FRA, Interest Rate Futures

Day 3 (6/5/08)

- Interest Rate Options
- Pricing Model (Binomial)
- Equity Derivatives
- Index and Stock Futures

Day 4 (7/5/08)

- Stock Options (Black Scholes Model)
- Currency Swaps
- Currency Futures

Day 5 (8/5/08)

- Currency Options
- Introduction to Commodity Derivatives
- Introduction to Credit Derivatives
- Value at Risk (Introduction)

Day 6 (9/5/08)

- VaR (Swaps, Options) (Credit VaR – Credit Metrics Approach)
- Accounting Standards and Regulatory Framework

Module II : May 12 – 16, 2008 (at CME Group, Chicago, USA)

Day 1 (12/5/08)

- Morning* : Intro to CME Group, Development of Derivative Markets, Regulatory Overview
- Afternoon* : Margins and SPAN, Market Surveillance, Clearing

Day 2 (13/5/08)

- Short-Term Interest Rate (STIR) Futures, Exchange vs OTC, Pricing & Hedging
- STIR Futures and Options; Packs, Bundles, Spreads, and other Trading Strategies

Day 3 (14/5/08)

- Treasury Bond Futures and Options, Pricing and Hedging, Yield Curve, Credit Spreads
- Stock Index Futures, FX Futures

Day 4 (15/5/08)

- Commodities : Grains
- Commodities : Energy, Metals

Day 5 (16/5/08)

- Trading Floor Tours
- Electronic Trading, Demos, Games, Discussions