



## Life Cycle of an Energy Derivative

The talk in energy markets is about volatility. Yet, key legal and operational risks in the global use of energy derivatives remain a mystery even to many practitioners in this rapidly growing global industry. Transacting energy derivatives is detailed and document intensive. The very architecture of energy trading derivatives front, middle, and back office functions can present numerous challenges both to on-site and off-site bank examiners, regulators, auditors, and compliance professionals. These professionals require specialized and routinely upgraded skills to meet their demanding objectives.

This two-day interactive course is tailored for auditors, regulators, bank examiners and supervisors and compliance professionals who need to understand the operational and legal risks of major energy derivatives. The course will consist of an interactive lecture and in depth exercises. Additionally, relevant articles highlighting recent regulatory, examination, and risk trends in energy derivatives will supplement this course.

### Targeted Audience

Auditors, regulators, bank examiners and supervisors, and compliance professionals who need to understand the operational and legal risks of major energy derivatives.

### Special Offer

Clients who register for this course will receive a complimentary 4-month subscription to FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. The move to the electronic version follows an ongoing review of our environmental responsibilities as a global business and as part of the Pearson group. FT.com also has features that are not available in hard copy, such as: Special Reports, Alphaville, editor blogs, education sections and much more! Subscriptions will start within 6-8 weeks of the start of class and are limited to one subscription per client. (Please note: as of May 1, 2011, the electronic subscription replaces the hard-copy 3-month Financial Times subscription.)

### Advance Preparation

No advance preparation required.

### Prerequisites

Introductory understanding of financial derivatives.

## Learning Objectives

Students will be able to:

- . Review mechanics of key energy derivatives
- . Identify documents used by market participants transacting energy derivatives
- . Compare and contrast responsibilities and best practices of banks' front, middle, and back offices (importance of operations to avoid systemic risk)
- . Identify key elements in the life cycle of energy derivatives
- . Apply concepts in the course to an audit or risk based supervision examination for energy derivatives at a financial institution and a corporation

## Follow-Up Courses

Derivatives in Energy Markets

Oil Company Financial Analysis and Valuation

**Level: Basic**

**CPE Credits: 14.0**

**Instructional Method: Group-Live**

## Detailed Outline

### Day I

#### **Module I: Managing Risks of Energy Products**

- . Define risk
- . Review risks that can arise from energy products: credit; market; liquidity; strategic
- . Evaluate evolving definition of legal risk:

### Day II

#### **Module III: ISDA® Documentation**

- . Identify key energy product related components of the ISDA®
- . - North American Gas Index
- . - Power Annex North America

documentation; compliance

. Evaluate evolving definition of operational risk: people; processes; technology; external influences

. Compare and contrast best practices to effective risk management steps

## **Module II: Overview of Key Energy Derivatives**

. Review mechanics of key energy derivatives and how they are used to hedge or speculate

. - Gas Europe

. - Power UK

## **Module IV: Energy Trading**

### **Operations**

. Describe organizational structure and best practices expected at a front office (identify transaction flow and reporting)

. Describe organizational structure and best practices expected at a middle office

. Identify key areas of a back office and expected best practices for operations:

. - Internal controls

. - Ticket flow

. - Trade transactions (Confirmations; Clearance - netting and its uses; discuss role of clearance facilities; DTCC)

. - Evaluate requirements for margin

. - Settlements: discuss risks during settlement process

. Foreign payments

. Reconciliations

. Discrepancies and disputed transactions

. Revaluation

. Documentation and record keeping

Exercise I: Participants will break up into groups to discuss and apply key components of a risk based bank examination or audit of an energy trading function. Emphasis will be for participants to put together best practices that examiners and auditors are looking for throughout the front, middle and back offices of an energy trading group.

Exercise II: Participants will break up into different groups from the previous

exercise. They will walk through a ten-year oil swap and another energy derivative of their choice from the point after a deal is agreed through final maturity. Scenarios exploring possible risks during the instruments life time will be explored.

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