



Exotic CDOs

In the last five years, as the desire to speculate has increased, so has the use of collateralized debt obligations. Moreover, Basel II requirements, in some cases, have also encouraged many financial institutions to use Special Investment Vehicles (SIVs) as a way to increase flexibility in their balance sheets. Yet, the current credit crisis in the markets demonstrates that investors, regulators, and rating entities need to increase their knowledge about these products' use, pricing opacity, and liquidity challenges.

This interactive, one day intermediate level course is targeted to structured products personnel, credit and risk officers, credit and equity analysts, regulators, auditors, lawyers, and compliance, IT, and operations personnel, along with financial journalists, who have an introductory knowledge of credit derivatives and/or of collateralized debt obligations. The course consists of a lecture, case studies, and relevant recent articles to supplement discussions.

Targeted Audience

Structured products professionals, auditors, regulators, IT professionals, and risk managers

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

Learning Objectives

Students will be able to:

- . Review mechanics of commonly used CDOs (CBOs, CLOs, CMOs, and Structured Products CDOs)
- . Identify mechanics of exotic CDOs
- . Analyze structures and uses of exotic CDOs (Synthetic; Constant Proportion Obligations; Collateralized Foreign Exchange Obligation (CFXO); Commercial Real Estate (CRE) CDOs)
- . Price CDOs
- . Compare and contrast advantages and risks to CDOs

Alumni Comments

"The instructor was able to make the subject matter relatable and very clear. (delegate feedback from Introduction to Credit Derivatives)"

"Excellent course presented by an excellent instructor. (delegate feedback from Credit Derivatives: Intermediate)"

Level: Intermediate

CPE Credits: 7.0

Instructional Method: Group-Live

Detailed Outline

Module I: Mechanics and Uses of CDOs

- . Identify CDO mechanics
- . Evaluate mechanics of SIV structures
- . Identify size of the global CDO markets
- . Evaluate the role of various actors in the market: banks; mutual, pension and hedge funds; corporations

- . Identify the influence of Basel II on CDOs
- . Discuss challenges in: marketing of CDOs; transparency of vehicles and pricing; liquidity
- . Compare and contrast advantages and disadvantages of CDOs
- . Evaluate role of rating agencies and regulators
- . Case studies: Barclays and Bear Stearns
- . Article for discussion: Role of CDO use in the current crisis

Module II: Synthetic CDOs

- . Identify mechanics of synthetic CDOs
- . Compare and contrast advantages and disadvantages of synthetic CDOs
- . Article for discussion

Module III: Constant Proportion Debt Obligations (CPDO)

- . Identify mechanics of CPDO
- . Compare and contrast advantages and disadvantages of CPDO

Module IV: Collateralized Foreign Exchange Obligation (CFXO)

- . Identify mechanics of CFXOs
- . Compare and contrast advantages and disadvantages of CFXOs
- . In Class Exercise

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Module V: Commercial Real Estate (CRE) CDOs

- . Identify mechanics of CRE CDOs
- . - Use of collateralized mortgage backed securities (CMBS), real estate investment trust (REIT) securities, and commercial real estate loans (CREL)
- . Compare and contrast advantages of CREs

Module VI: Derivatives on CDOs

- . Identify mechanics of forward start CDOs and options on CDOs

Module VII: Index Tranching

- . Identify mechanics of Index Tranching
- . Evaluate index tranching products
- . Compare and contrast advantages of index tranching

Module VIII: Pricing of CDOs

- . Identify pricing models for CDOs
- . Evaluate challenges in pricing CDOs
- . Exercise

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